

RESOLUTION

**S. B. 1652 BIENNIAL
REAPPRAISAL PLAN FOR SAN
AUGUSTINE CENTRAL
APPRAISAL DISTRICT**

**FOR TAX YEARS
2023-2024**

RESOLUTION

STATE OF TEXAS

RESOLUTION APPROVING THE WRITTEN
2023/2024 BIENNIAL REAPPRAISAL PLAN
FOR SAN AUGUSTINE COUNTY APPRAISAL
DISTRICT

COUNTY OF SAN AUGUSTINE

SAN AUGUSTINE COUNTY APPRAISAL DISTRICT

WHEREAS, Section 6.05(i) of the Texas Property Tax Code requires that the DISTRICT Board Of Directors biennially approve a written plan for periodic appraisal of all property within the boundaries of the district, according to Section 25.18 of the Texas Property Tax Code, and

WHEREAS, the DISTRICT Board Of Directors has notified the presiding offices of the governing body of each taxing unit participating in the DISTRICT a written notice of the time, date and place of the public hearing and

WHEREAS, the DISTRICT Board Of Directors has held a public hearing on September 12, 2022 to consider any amendments to the written plan and there were no amendments made to the written plan and

NOW THEREFORE, be it RESOLVED that the DISTRICT Board of Directors adopts the written reappraisal plan.

RESOLVED FURTHER, that the CHIEF APPRAISER of the DISTRICT is authorized and directed to deliver copies of the approved written reappraisal plan in compliance with the remainder of Section 6.05(i) to the presiding officer of the governing body of each taxing unit participating in the DISTRICT and to the state comptroller of public accounts within 60 days of the approval date.

READ, PASSED AND APPROVED THIS THE 12th day of September 2022.

BY: 
Waldo Dalchau, Chairman

ATTEST:


Randy Woodward, Secretary

CERTIFICATION STATEMENT:

“I, Evelyn Watts, Chief Appraiser for San Augustine Central Appraisal District, solemnly swear that I have made or caused to be made a diligent inquiry to ascertain all property in the district subject to appraisal by me, and that I have included in all the records property that I am aware of at an appraised value which, to the best of my knowledge and belief, was determined as required by law.”

A handwritten signature in black ink that reads "Evelyn Watts". The signature is written in a cursive style and is positioned above a solid horizontal line.

Evelyn Watts, RPT-CTA-CCA
Chief Appraiser

September 12, 2022

SAN AUGUSTINE CENTRAL APPRAISAL DISTRICT

REAPPRAISAL PLAN

INTRODUCTION

SCOPE OF RESPONSIBILITY

The San Augustine Central Appraisal District has prepared and published this reappraisal plan and appraisal report to provide our Board of Directors, citizens and taxpayers with a better understanding of the district's responsibilities and activities. This report has several parts: a general introduction and then, several sections describing the appraisal effort by the appraisal district.

The San Augustine Central Appraisal District is a political subdivision of the State Of Texas created effective January 1, 1980. The provisions of the Texas Property Tax Code govern the legal, statutory and administrative requirements of the appraisal district. A five member Board of Directors, appointed by the taxing units within the boundaries of San Augustine County, constitutes the districts governing body. The chief appraiser, appointed by the Board of Directors, is the chief administrator and chief executive officer of the appraisal district.

The appraisal district is responsible for local property tax appraisal and exemption administration for 5 jurisdictions or taxing units in the county. Each taxing unit, such as the county, city, school district, etc., sets its own tax rate to generate revenue to pay for such things as police and fire protection, public schools, road and street maintenance, courts, water and sewer systems and other public services. Property appraisals and estimated values by the appraisal district allocate the year's tax burden on the basis of each taxable property's market value. We also determine eligibility for various types of property tax exemptions such as those for homeowners, the elderly, disabled veterans, charitable or religious organizations and agricultural productivity valuation.

Except as otherwise provided by the Property Tax Code, all taxable property is appraised at its "market value" as of January 1st. Under the tax code, "market value" means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- Exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
- Both the seller and the buyer know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use and;

- Both the seller and buyer seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.

The Property Tax Code defines special appraisal provisions for the valuations of residential homestead property(Sec. 23.23), productivity(Sec. 23.41), real property inventory(Sec. 23.12), dealer inventory(Sec. 23.121, 23.124, and 23.127), nominal(Sec. 23.18), or restricted use properties (Sec. 23.83) and allocation of interstate property(Sec. 23.03). The owner of real property inventory may elect to have the inventory appraised at its market value as of September 1st of the year preceding the tax year to which the appraisal applies by filing an application with the chief appraiser requesting that the inventory be appraised as of September 1st.

The Texas Property Tax Code, under Sec. 25.18, requires each appraisal office to implement a plan to update appraised values for real property at least once every three years. The district's current policy is conduct a reappraisal of taxable property every three years according to re-inspection zones. Appraised values are reviewed annually and are subject to change. Business personal properties, minerals and utility properties are appraised every year.

The appraised value of real estate is calculated using specific information about each property. Using computer-assisted mass appraisal programs and recognized appraisal methods and techniques, we compare that information with the data for similar properties, and with recent cost and market data. The district follows the standards of the International Association of Assessing Officers(IAAO) regarding its appraisal practices and procedures and subscribes to the standards promulgated by the Appraisal Foundation known as the Uniform Standards of Professional Appraisal Practice(USPAP) to the extent they are applicable.

PERSONNEL RESOURCES

The office of the Chief Appraiser is primarily responsible for overall planning, organizing, staffing, coordinating and controlling of district operations. The administration department's function is to plan, organize, direct and control the business support functions related to human resources, budget, finance, records management, purchasing, fixed assets, facilities and postal services. The appraisal department is responsible for the valuation of all real and personal property accounts. The property types appraised include commercial, residential, business personal, mineral, utilities and industrial. The district's appraisers are subject to the provision of the Property Taxation Professional Certification Act and must be duly registered with Texas Department of Licensing and Regulations. Support functions including records maintenance, information and assistance to property owners and hearings are coordinated by personnel in support services.

The appraisal district staff consists of five employees with the following classifications:

- 1 – Official/Administrator(executive level administration)
- 3 – Technicians(appraiser, mapper)
- 1 – Administrative Support(secretary, clerical)

STAFF EDUCATION AND TRAINING

All personnel that are performing appraisal work are registered with Texas Department Of Licensing and Regulations and are required to take appraisal courses to achieve the status of Registered Professional Appraiser within five years of employment as an appraiser. After they are awarded their license, they must receive additional training of a minimum of 30 continuing education units every two years. Failure to meet these minimum standards results in the termination of the employee.

Additionally, all appraisal personnel receive extensive training in data gathering processes including statistical and analysis of all types of property to ensure equality and uniformity of appraisal of all types of property. On-the-job training is delivered to new appraisers and regular staff meetings are held to introduce new procedures and regularly monitor appraisal activity to ensure that standardize appraisal procedures are being followed by all personnel.

DATA

The district is responsible for establishing and maintaining approximately 41,773 real and personal property accounts covering approximately 524 square miles within San Augustine County and several square miles within an adjoin county. Portions of adjoining county are under overlapping taxing jurisdictions and these properties are included within this number of property accounts. The over-lapping jurisdiction enter into Shelby County as well as Chireno and Brookeland Independent School Districts overlapping within San Augustine County. This data includes property characteristics, ownership and exemption information. Property characteristic data on new construction is updated through an annual field effort; existing property data is maintained through field review. Sales are routinely validated during separate field effort; however, numerous sales are validated as part if the new construction and field inspections. General trends in employment, interest rates, new construction trends, cost and market data are acquired through various sources, including internally generated questionnaires to buyer and sellers, university research centers and market data centers and vendors.

INFORMATION SYSTEMS

The appraisal and mapping departments manage and maintain the district's data processing, software application and geographical information system. The district strives to cooperate with other county agencies. The mainframe hardware/system software is an IBM I series and mapping uses a Lenovo standalone with Windows 11 software and Ersi-Arc GIS. Pritchard & Abbott, Inc. provides hardware and software services for appraisal applications and mapping.

SHARED APPAISAL DISTRICT BOUNDARIES

The district established procedures whereby ownership and property data information are routinely exchanged within over-lapping jurisdictional boundaries. Appraisers from adjacent appraisal districts discuss data collection and valuation issues to minimize the possibility of differences in property characteristics, legal descriptions and other administrative data. Under current State law, if a different method of developing values is not agreed upon by overlapping counties, the lower of the values is required to be used as the assessed value by all appraisal districts appraising the property.

INDEPENDENT PERFORMANCE TEST

According to Chapter 5 of the TPTC and Section 403.302 of the Texas Government Code, the State Comptroller's Property Tax Division(PTS) conducts an annual property value study(PVS) of each Texas school district and each appraisal district. As part of this annual study, the code requires the Comptroller to: use sales and recognized auditing and sampling techniques; review each appraisal district's appraisal methods, standards and procedures to determine whether the district used recognized standards and practices(MAPS review); test the validity of school district taxable values in each appraisal district and presume the appraisal roll values are correct when values are valid; and determine the level and uniformity of property tax appraisal in each appraisal district. The methodology used in the property value study includes stratified samples to improve sample representativeness and techniques or procedures of measuring uniformity. This study utilizes statistical analysis of sold properties(sale ratio studies) and appraisals of unsold properties(appraisal ratio studies) as a basis for assessment ratio reporting. For appraisal districts, the reported measures include median level of appraisal, coefficient of dispersion(COD), the percentage of properties within 10% of the median, the percentage of properties within 25% of the median and price-related differential(PRD) for properties overall and by state category.

There are 2 independent school districts in San Augustine CAD for which appraisal rolls are annually developed. The preliminary results of this study are released January 31 in the year following the year of appraisement. The final results of this study are certified to the Education Commissioner of the Texas Education Agency(TEA) the following August of each year. This outside(third party) ratio study provides additional assistance to the CAD in determining areas of market activity or changing market conditions.

APPRAISAL ACTIVITIES

INTRODUCTION

APPRAISAL RESPONSIBILITIES

The field appraisal staff is responsible for collecting and maintaining property characteristic data for classification, valuation and other purposes. Accurate valuation of real and personal property by any method requires a comprehensive physical description of personal property and land and building characteristics. This appraisal activity is responsible for administering, planning and coordinating all activities involving data collection and maintenance of all commercial, residential and personal property types located within the boundaries of San Augustine County and the jurisdiction of this appraisal district. The data collection effort involves the field inspection of real and personal property accounts, as well as data entry of all data collected into the existing information system. The goal is to periodically field inspect residential, commercial and personal properties in the district 1/3 each year. Improved residential properties are field inspected 1/3 each year.

APPRAISAL RESOURCES

- **PERSONNEL** – The appraisal activities are conducted by 2 appraisers and an outside firm.
- **DATA** – The data used by field appraisers includes the existing property characteristic information contained in CAMA(Computer Assisted Mass Appraisal System) from the district's computer system. The data is printed on a property record card(PRD) or personal property data sheets. Other data used includes maps, sales data, photos and actual cost and market information. Sources of information are gathered using excellent reciprocal relationships with other participants in the real estate market place. The district cultivates sources and gathers information from both buyers and sellers participating in the real estate market.

APPRAISAL FREQUENCY AND METHOD SUMMARY

- Residential Property – Residential property is physically examined every three years with appraisers walking around each home, noting condition of the improvement and looking for changes that might have occurred to the property since the last on-site check. Exterior pictures are taken of homes upon these inspections. Every subdivision is statistically analyzed annually to ensure that sales that have occurred in the subdivision during the past 23 months are within a +3% range of appraised value. If sales do not indicate that range, adjustments are made to the subdivision using a process outlined in detail in the Residential Appraisal section of this report.
- Commercial Property-Commercial and industrial real estate is observed annually to verify class and condition. The inspection occurs as Business Personal Property appraisers are checking BPP accounts. Pictures are taken of the improvements every other year. Real estate account are analyzed against sales of similar properties in San Augustine CAD as well as similar communities in East Texas that have similar economies. The income approach to value is also utilized to appraise larger valued commercial properties such as office buildings, apartments complexes, restaurants, motels and hotels and other types of property that typically sell based on net operating income.
- Business Personal Property-Business personal property is observed annually with appraisers actually going into business, when practical, to develop quality and density observations. A rendition is sent for new businesses to complete. Similar businesses to a subject are analyzed annually to determine consistency of appraisal per square foot. Businesses are categorized using SIC codes. Rendition laws provide additional information on which to base values of all BPP accounts.
- Minerals-Working and royalty interests of producing oil and gas wells are appraised annually by an outside firm(Pritchard & Abbott, Inc.). The most recent production data available from the Texas Railroad Commission is downloaded into appraisal software that estimates economically recoverable reserves. Those reserves are then valued based on State mandated pricing using the previous year's average of oil or gas values. A discount is applied over the anticipated life of the well in order to consider the value of money over time to recover those reserves. Each producing lease is valued as a unit and then that value is divided according to the various owners of the lease listed in division orders.
- Utilities and Pipelines-Utility Companies and pipelines are appraised annually by an outside firm(Pritchard & Abbott, Inc.), using a unit value developed using all three approaches to value. For example, a utility company's total value in the State is estimated using cost, market and income approaches to value and then the entire value is allocated using the components of that utility company that have situs in the various

tax units of San Augustine CAD. Components include such things as miles of transmission line, miles of distribution lines, substations and the like for an electric utility.

PRELIMINARY ANALYSIS

DATA COLLECTION/VALIDATION

Data collection of real property involves maintaining data characteristics of the property on CAMA(Computer Assisted Mass Appraisal). The information contained in CAMA includes site characteristics, such as land size and topography and improvement data, such as square foot of living area, year built, quality of construction and condition. Field appraisers are required to use a property classification system that establishes uniform procedures for the correct listing of real property. All properties are coded according to a classification system. The approaches to value are structured and calibrated based on this coding system and property description and characteristics. The field appraisers use property classification references during their initial training and as a guide in the field inspection of properties. Data collection for personal property involves maintaining information on software designed to record and appraise business personal property. The type of information contained in the BPP file includes personal property such as business inventory, furniture and fixtures, machinery and equipment, with details such as cost and location. The field appraisers conducting on-site inspections use a personal property classification system during their initial training as a guide to correctly list all personal property that is taxable.

The listing procedure utilized by the filed appraisers is available in the district offices. Appraisers periodically update the classification system with input from the valuation group.

SOURCES OF DATA

The sources of data collection are through property inspection, new construction field effort, data review/relist field effort, data mailer questionnaires, hearings, sales validation field effort, commercial sales verification and field effort, newspaper and publications and property owner correspondence by mail or via the Internet. Area and regional real estate brokers and managers are also sources of market and property information. Data surveys of property owners requesting market information and property description information is also valuable data. Soil surveys and agricultural surveys of farming ranching property owners and industry professional are helpful for productivity value calibration. The Texas Railroad Commission is the source for mineral production data and leasing information. Improvement cost information is gathered from local building contractors. Various income and rental surveys are performed by mailings to property managers and operators to determine operating income and expenses for investment and income producing real property.

Data review of entire neighborhoods is generally a good source for data collection. Appraisers visit entire neighborhoods to review the accuracy of our data and identify properties that have to be relisted. The sales validation effort in real property pertains to the collection of market data for properties that have sold. In residential, the sales validation effort involves on-site inspections by field appraisers to verify the accuracy of the property characteristics and confirmation of the sales price. In commercial, the commercial sales group is responsible for contacting sales participants to confirm sales prices and to verify pertinent data.

Property owners are one of the best sources for identifying incorrect data that generates a field check. Frequently, the property owner provides reliable data to allow corrections of records without having to send an appraiser on-site. Property owners sometimes submit letters notifying the district of inaccurate data. Properties in this manner are added to a work file and inspected as the earliest opportunity. Accuracy and validity in property descriptions and characteristics data is the highest goal and is stressed throughout the appraisal process from year to year. Appraisal opinion quality and validity relies on data accuracy as its foundation.

DATA COLLECTION PROCEDURES

Appraisers of real estate and business personal property conduct field inspections and record information on properties that allows for the entry of corrections and additions that the appraiser may find in his or her field inspection.

The quality of the data used is extremely important in estimating market values of taxable property. While work performance standards are established and upheld for the various field activities, quality of data is emphasized as the goal and responsibility of each appraiser. Appraisers are routinely re-trained in listing procedures prior to major field projects such as new construction, sales validation or data review. A quality assurance process exists through supervisory review of the work being performed by the field appraisers. Quality assurance supervision is charged with the responsibility of ensuring that appraisers follow listing procedures, identifying training issues and provide uniform training throughout the field appraisal staff.

DATA MAINTENANCE

The field appraiser is responsible for the data entry of his/her fieldwork into the computer file. This responsibility includes not only data entry, but also quality assurance. Data updates and file modification for property descriptions and input accuracy is conducted as the responsibility of the field appraiser.

INDIVIDUAL VALUE REVIEW PROCEDURES

FIELD REVIEW

The date of last inspection and the CAD appraiser responsible are listed on the CAMA record or property card. If a property owner or jurisdiction dispute the district's records concerning this data during a hearing, via a telephone call or other correspondence received, the record may be corrected based on the evidence provided on an on-site inspection may be conducted.

Typically, a field inspection is requested to verify this information for the current year valuation or for the next year's valuation. Every year a field review of real property located in certain areas or neighborhoods in the jurisdiction is done during the data review/re-list field effort. A field review is performed on most personal property accounts, with available situs, each year.

OFFICE REVIEW

Office reviews are completed on properties where update information has been received from the owner of the property and is considered accurate and correct. Data mailers, sent in masses or at the request of the property owner, frequently verify some property characteristics or current condition of the property. When the property data is verified in this manner and considered accurate and correct, field inspections may not be required. The personal property department mails property rendition forms in January of each year to assist in the annual review of the property.

PERFORMANCE TEST

The property appraisers are responsible for conducting ratio studies and comparative analysis. Ratio studies are conducted on property located within certain neighborhoods or districts by appraisal staff. The sale ratio and comparative analysis of sale property to appraised property forms the basis for determining the level of appraisal and market influences and factors for the neighborhood. This information is the basis for updating property valuation for the entire area of property to be evaluated. Field appraisers, in many cases may conduct field inspections to insure the accuracy of the property descriptions at the time of sale for this study. The inspection is to insure that the ratios produced are accurate for the property sold and that appraised values utilized in the study are based on accurate property data characteristics observed at the time of sale. Also, property inspections are performed to discover if property characteristics has changed as of the sale data or subsequent to the sale date. Dale ratios should be on the value of the property as of the date of sale not after a subsequent or substantial change was made to the property after the negotiation and agreement in price was concluded. Properly performed ratio studies are a good reflection of the level of appraisal for the district.

REAPPRAISAL

San Augustine CAD plans to conduct a reappraisal on a three-year rotation. While all property values are updated annually to reflect market values, one third of the district is re-inspected every year.(see Re-inspection Zones Page 43). The re-inspection consists of physical inspection of properties and the geographic information system.

Appraisers in the field have property records that contain specific information regarding the property being appraised in a paper format. These records contain brief legal descriptions, ownership interest, property use codes, property addresses, land size and characteristics, sketches of improvements as well as any available detailed information of the improvements.

Regardless of method, re-inspections require appraisers to check all information on the property and the property record, and to update the appraisal roll as necessary. The appraiser's primary duty is to ensure the accuracy of San Augustine CAD's property records. Appraisers note their opinion of classification, condition and characteristics of the property. If changes in the size of any structures are observed, the appraiser measures and lists those dimensions. Appraisers take digital photos of each property field inspected. All work is reviewed by the chief appraiser.

In addition to reappraisal, all exemptions and special valuations for properties in the reappraisal area are reviewed to verify qualification.

The reappraisal plan is made under the guidelines of current law. This plan may be revised if the Legislature materially changes current laws governing Appraisal Districts, in the unfortunate event of a natural disaster or other unforeseeable event. Any proposed revision is subject to public notification and ratification by the Board of Directors of the San Augustine CAD.

San Augustine CAD appraisers will also be responsible for inspecting and maintaining all business personal property records, inspecting land designated for special agricultural valuation, inspecting land where the property owner has applied for special agricultural valuation and administering special inventory valuations.

MARKET AREAS

Each year the district analyzes rural land sales data. The sales indicate economic influences on rural land value. This analysis is the basis for the quad divisions within San Augustine County.

Market areas are set by market trends. A market trend is the rate of change of market prices for specific classes of properties, such as commercial and single family residential, etc. Market trends are often set by or follow local, statewide or regional economics. These trends can often be delineated along market areas and should be measured by market area. In San Augustine County market areas may be defined as neighborhoods, subdivisions, school districts or any manner that the appraiser determines a trend, such Lakefront Property. Once the appraiser establishes a market area, ratio studies are conducted within the area.

The market areas within San Augustine CAD are defined as the City of San Augustine, City of Broaddus, Broaddus ISD, Brookeland ISD, Chireno ISD and San Augustine ISD.

MARKET AREA REVIEW

Real property market areas, stratified by property classification, will be tested for low or high sales ratios and high coefficients of dispersion. Market areas that fail any or all of the tests will be reviewed. Field reviews will be scheduled to verify and correct property characteristics data. Additional sales data will be researched and verified in order to assess whether the market area is correctly defined and stratified.

MARKET AREA DELINEATION

Market areas are defined by the physical, economic, governmental and social forces that influence property values. The effects of these forces were used to identify, classify and stratify or delineate similarly situated properties into smaller, more comparable and manageable subsets for valuation purposes. Delineation can involve the physical drawing of neighborhood boundary lines on a map or it can also involve statistical separation or stratification based on attribute analysis. These homogeneous properties have been delineated into valuation neighborhoods for residential property or economic class of commercial property. Because there are discernible patterns of growth that characterize a neighborhood boundaries or market segment, analyst staff will evaluate and redefine the neighborhood boundaries or market segments when necessary in order to ensure homogeneity of property characteristics.

RESIDENTIAL VALUATION PROCESS

INTRODUCTION

SCOPE OF RESPONSIBILITY

The residential appraisers are responsible for estimating equal and uniform market values for residential improvement and vacant property. These are approximately 5,540 residential improved single and multiple family parcels and 2,900 vacant residential properties in San Augustine County and adjoining overlapping jurisdictional areas.

APPRAISAL RESOURCES

- Personnel – The residential appraisal staff consists of 3 appraisers. The following appraisers are responsible for estimating the market value of residential property.
- Evelyn Watts, Chief Appraiser – Commercial and Residential Appraiser
- Lori Prouty- Harper – Commercial and Residential Appraiser
- Joseph Barnett – Residential Appraiser
- Data – An individualized set of data characteristics for each residential dwelling and multiple family units in this district are collected in the field and data entered to the computer. The property characteristic data drives the application of computer-assisted mass appraisal(CAMA) under the Cost, Market and Income Approaches to property valuation.

VALUATION APPROACH

LAND ANALYSIS

Residential land valuation analysis is conducted prior to neighborhood sales analysis. The value of land component to the property is estimated based on available market sales for comparable and competing land under similar usage. A comparison and analysis of comparable land sales is conducted based on a comparison of land characteristics found to influence the market price of land located in the neighborhood. A computerized land table file stores the land information required to consistently value individual parcels within neighborhoods given known land characteristics. Specific land influences are considered, where necessary and depending on neighborhood and individual lot or tract access, view, shape, size and topography. The appraisers use abstraction and allocation methods to insure that estimate land values best reflect the contributory market value of the land to the overall property value.

AREA ANALYSIS

Data on regional economic forces such as demographic patterns, regional locational factors, employment and income patterns, general trends in real property prices and rents, interest rate trends, availability of vacant land, and construction trends and costs are collected from private vendor and public sources and provide the field appraiser a current economic outlook on the real estate market. Information is gleaned from real estate publications and sources such as continuing education in the form of IAAO and PTEC classes.

NEIGHBORHOOD AND MARKET ANALYSIS

Neighborhood analysis involves the examination of how physical, economic, governmental and social forces and other influences affect property values. The effects of these forces are also used to identify, classify and stratify comparable properties into smaller manageable subsets of the universe of properties known as neighborhoods. Residential valuation and neighborhood analysis is conducted on various market areas within each of the political entities known as Independent School Districts (ISD). Analysis of comparable market sales forms the basis of estimating market activity and the level of supply and demand affecting market prices for any given market area, neighborhood or district. Market sales indicate the effects of these market forces and are interpreted by the appraiser into an indication of market prices ranges and indications of property component change considering a given time period relative to the date of appraisal. Cost and Market Approaches to estimate value are the basic techniques utilized to interpret these sales. For multiple family properties the Income Approach to value is also utilized to estimate an opinion of value for investment level residential property.

The first step in neighborhood analysis is the identification of a group of properties that share certain common traits. A "neighborhood" for analysis purposes is defined as the largest geographic grouping of properties where the property's physical, economic, governmental and social forces are generally similar and uniform. Geographic stratification accommodates the local supply and demand factors that vary across jurisdiction. Once a neighborhood similar characteristics has been identified, the next step is to define its boundaries. This process is known as "delineation". Some factors used in neighborhood delineation include location, sales price range, lot size, age of dwelling, quality of construction and condition of dwellings, square footage of living area and story height. Delineation can involve the physical drawing of neighborhood boundary lines on a map, but it can also involve statistical separation or stratification based on attribute analysis. Part of neighborhood analysis is the consideration of discernible patterns of growth that influence a neighborhood's individual market. Few neighborhoods are fixed in character. Each neighborhood may be characterized as being in a stage of growth, stability or decline. The growth period is a time of development and construction. As new neighborhoods in a community are developed, they compete with existing neighborhoods. An added supply of new homes tends to induce population shift from older homes to newer homes. In the period of stability or equilibrium the forces of supply and

demand are about equal. Generally, in the state of equilibrium, older neighborhoods can be more desirable due to their stability of residential character and proximity to the workplace and other community facilities. The period of decline reflects for residential to a mix of residential and commercial uses. Declining neighborhoods may also experience renewal, reorganization, rebuilding or restoration which promotes increased demand and economic desirability.

Neighborhood identification and delineation is the cornerstone of the residential valuation system at the district. All the residential analysis work done is association with the residential valuation process is neighborhood specific. Neighborhoods are field inspected and delineated based on observable aspects of homogeneity. Neighborhood delineation is periodically reviewed to determine if further neighborhood delineation is warranted. Whereas neighborhoods involve similar properties in the same location, a neighborhood group is simply defined as similar neighborhoods in similar locations. Each residential neighborhood is assigned to a neighborhood group based on observable aspects of homogeneity between neighborhoods. Neighborhood grouping is highly beneficial in cost-derived areas of limited or no sales, or use in direct sales comparison analysis. Neighborhood groups or clustered neighborhoods, increase the available market data by linking comparable properties outside a given neighborhood. Sales ratio analysis, discussed below, is performed on a neighborhood and in soft sales areas on a neighborhood group basis.

HIGHEST AND BEST USE ANALYSIS

The highest and best use of property is the reasonable and probable use that supports the highest present value as of the date of the appraisal. The highest and best use must be physically possible, legal, financially feasible and productive to its maximum. The highest and best use of residential development, in many areas, through use of deed restrictions and zoning, precluded other land uses. Residential valuation undertakes reassessment of highest and best use in transition areas and areas of mixed residential and commercial use. In transition areas with ongoing gentrification, the appraiser reviews that existing residential property use and makes a determination regarding highest and best use. Once the conclusion is made that the highest and best use remains residential, further highest and best use analysis is done to decide the type or residential, use on a neighborhood basis. As an example, it may be determined in a transition area that older, non-remodeled homes are economic misimprovements and the highest and best use of such property is the construction of new dwellings. In areas of mixed residential and commercial use, the appraiser reviews properties in these areas on a periodic basis to determine if changes in the real estate market require reassessment of the highest and best use of a select population of properties.

VALUATION AND STATISTICAL ANALYSIS(Model Calibration)

COST SCHEDULES

All residential parcels in the district are valued with a replacement cost estimated from identical cost schedules based on the improvement classification system using a comparative unit method. The district's residential cost estimates are compared with sales of new improvements and evaluated from year to year and indexed to reflect the local residential building and labor market. Costs may also be indexed for neighborhood factors and influences that affect the total replacement cost of the improvement in a smaller market area based on evidence taken from a sample of market sales. The cost schedules are reviewed regularly as a result of recent state legislation requiring that the appraisal district cost schedules be within a range of plus or minus 10% from nationally recognized cost schedules.

A review of the residential cost schedule is performed annually. As part of this review and evaluation process of the estimated replacement cost, newly constructed sold properties representing various levels of quality of construction in district are considered. The property data characteristics of these properties are verified and photographs are taken of the samples.

SALES INFORMATION

A sales file for the storage of sales data at the time of sale is maintained for real property. Residential vacant land sales, along with commercial improved and vacant land sales are maintained in a sales information system. Residential improved and vacant sales are collected from a variety of sources, including: district questionnaire sent to buyer and seller, field discovery, protest hearing, various sales, vendors, builders and realtors. A system of type, source, validity and verification codes has been established to define salient facts related to a property's purchase or transfer and to help determine relevant market sale prices. The effect of time as an influence on price was considered by paired comparison and applied in the ratio study to the sales as indicated within each neighborhood area. Neighborhood sales reports are generated as an analysis tool for the appraiser in the development and estimation of market price ranges and property component value estimates. Abstraction and allocation of property components based on sales of similar property is an important analysis tool to interpret market sales under the cost and market approaches to value. These analysis tools help determine and estimate the effect of change, with regard to price, as indicated by sale prices for similar property within the current market.

Monthly time adjustments are estimated based on comparative analysis using paired comparison of sold property. Sales of the same property were considered and analyzed for any indication of price change attributed to a time change or influence. Property characteristics,

financing and conditions of sale were compared for each property sold in the pairing of property to isolate only the time factor as an influence on price.

STATISTICAL ANALYSIS

The residential valuation appraisers perform statistical analysis annually to evaluate whether estimated values are equitable and consistent with the market. Ratio studies are conducted on each of the residential valuation neighborhoods in the district to judge the two primary aspects of mass appraisal accuracy-level and uniformity of value. Appraisal statistics of central tendency generated from sales ratios are evaluated and analyzed for each neighborhood. The level of appraised values is determined by the weighted mean ratio for sales of individual properties within a neighborhood, and a comparison of neighborhood weighted means reflect the general level of appraised value between comparable neighborhoods.

The appraiser, through the sales ratio analysis process, reviews every neighborhood annually. The first phase involves neighborhood ratio studies that compare the recent sales prices of neighborhood properties to the appraised values of these sold properties. This set of ratio studies affords the appraiser an excellent means of judging the present level of appraised value and uniformity of the sales. The appraiser, based on the sales ratio statistics and designated parameters for valuation update, makes a preliminary decision as to whether the value level in a neighborhood needs to be updated or whether the level of market value in a neighborhood is at an acceptable level.

Neighborhood analysis of market sales to achieve an acceptable sale ratio or level of appraisal is also the reconciliation of the market and cost approaches to valuation. Market factors are developed from appraisal statistics provided from market analysis and ratio studies and are used to ensure that estimated values are consistent with the market and to reconcile cost indicators. The district's primary approach to the valuation of residential properties uses a hybrid cost-sales comparison approach. This type of approach accounts for neighborhood market influences not particularly specified in a purely cost model.

The following equation denotes the hybrid model used: $MV=LV+(RCN-AD)$

Whereas, in accordance with the cost approach, the estimated market value(MV) of the property equals the land value(LV) plus the replacement cost new of property improvements(RCN) less accrued depreciation(AD). As the cost approach separately estimates both land and building contributory values and uses depreciated replacement costs, which reflect only the supply side of the market, it is expected that adjustments to the cost values may be needed to bring the level of appraisal to an acceptable standard as indicated by market sales. Thus, demand side economic factors and influences may be observed and considered. These market, or location adjustments, may be abstracted and applied uniformly within neighborhoods to account for location all variances between market areas or across a jurisdiction. Whereas, in accordance with the Market Approach, the estimated market value(MV) of the property equals the basic unit of property, under comparison, times the

market price range per unit for sales of comparable property. For residential property, the unit of comparison is typically the price per square foot of living area or the price indicated for the improvement contribution. This analysis for the hybrid model is based on both the cost and market approaches as a correlation of indication of property valuation. A significant unknown for these two indications of value is determined to be the rate of change for the improvement contribution to total property value. The measure of change for this property component can best be reflected and based in the annualized accrued depreciation rate. This cost related factor is most appropriately measured by sales of similar property. The market approach, when improvements are abstracted from the sale price, indicates the depreciated value of the improvement component, in effect, measuring changes in accrued depreciation, a cost factor. The level of improvement contribution to the property is measured by abstraction of comparable market sales, which is the property sale price less land value. The primary unknown for the cost approach is to accurately measure accrued depreciation affecting the amount of loss attributed to the improvements as age increases and condition changes. This evaluation of cost results in the depreciated value of the improvement component based on age and condition. The evaluation of this market and cost information is the basis of reconciliation and indication of property valuation under this hybrid model.

When the appraiser reviews a neighborhood, the appraiser reviews and evaluates a ration study, that compares recent sale prices of properties, appropriately adjusted for the effects of time, within a delineated neighborhood, with the value of the properties' based on the estimated depreciated replacement cost of improvements plus land value. The calculated ratio derived from the sum of the sold properties' estimated value divided by the sum of the time adjusted sales prices indicates the neighborhood level of appraisal based on sold properties. This ratio is compared to the acceptable appraisal ratio, 96% to 100%, to determine the level of appraisal for each neighborhood. If the level of appraisal for the neighborhood is outside the acceptable range of ratios, adjustments to the neighborhood are made.

If reappraisal of the neighborhood is indicated, the appraiser analyzes available market sales, appropriately adjusted for the apparent effects of time, by market abstraction of property components. This abstraction of property components allows the appraiser to focus on the rate of change for the improvement contribution to the property by providing a basis for calculating accrued depreciation attributed to the improvement component. This impact on value is usually the most significant factor affecting property value and the most important unknown to determine by market analysis. Abstraction of the improvement component from the adjusted sale price for a property indicates the effect of overall market suggested influences and factors on the price of improvements that were a part of this property, recently sold. Comparing this indicated price or value allocation for the improvement with the estimated replacement cost new of the improvement indicates any loss in value due to accrued forms of physical, functional or economic obsolescence. This is a market driven measure of accrued depreciation and results in a true and relevant measure of improvement marketability, particularly when based on multiple sales that indicate the trending of this rate of change over certain classes of improvements within certain neighborhoods. Based on this market analysis, the appraiser estimates the annual rate of depreciation for given improvement descriptions

considering age and observed condition. Once estimated, the appraiser recalculates the improvement value of all property within the sale sample to consider and review the effects on the neighborhood sale ratio. After an acceptable level of appraisal is achieved within the sale sample, the entire neighborhood of property is recalculated utilizing the indicated depreciation rates taken from market sales. This depreciation factor is the basis for trending all improvement values and when combined with any other site improvements and land value, brings the estimated property value through the cost approach closer to actual market prices as evidenced by recent sale prices available within a given neighborhood. Therefore, based on analysis of recent sales located within a given neighborhood, estimated property values will reflect the market influences and conditions only for the specified neighborhood, thus producing more representative and supportable values. The estimated property values calculated for each updated neighborhood are based on market indicated factors applied uniformly to all properties within a neighborhood. Finally with all the market-trend factors applied, a final ratio study is generated that compares recent sale prices with the proposed appraised values for these sold properties. From this set of ratio studies, the appraiser judges the appraisal level and uniformity in both updated and non updated neighborhoods and verifies appraised values against overall trends as exhibited by the local market, and finally, for the school district as a whole.

TRENDING OF RESIDENCE HOMESTEADS

Beginning in 1998, the State of Texas implemented a constitutional classification scheme concerning the appraisal of residential property that receives a residence homestead exemption. Under the law, beginning in the second year a property receives a homestead exemption; increases in the assessed value of that property are "capped". The value for tax purposes (assessed value) of a qualified residence homestead will be the LESSER of:

- The market value ; of
- The preceding year's appraised value;
PLUS 10% for each year since the property was re-appraised;
PLUS the value of any improvements added since the last re-appraisal.

Assessed values of capped properties must be recomputed annually. If a capped property sells, the cap automatically expires as of January 1st of the year following sale of the property and the property is appraised at its market value. An analogous provision applies to new homes. While a developer owns them, unoccupied residences may be partially complete and appraised as part of an inventory. This valuation is estimated using the district's land value and the percentage of completion for the improvement contribution that usually is similar to the developer's construction costs as a basis of completion on the valuation date. However, in the year following changes in completion occupancy or sale they are appraised at market value.

INDIVIDUAL VALUE REVIEW PROCEDURES

FIELD REVIEW

The appraiser identifies individual properties in critical need of field review through sales ratio analysis. Sold properties are field reviewed on a monthly and periodic basis to check for accuracy of data characteristics.

As the district's parcel count has increased through new home construction and the homes constructed in the boom years of the late 70's and early 80's experience remodeling, the appraisers are required to perform the field activity associated with transitioning and high demand neighborhoods. Increased sales activity has also resulted in a more substantial field effort on the part of the appraisers to review and resolve sales outliers. Additionally, the appraiser frequently field reviews subjective data items such as quality of construction, condition and physical, functional and economic obsolescence, factors contributing significantly to the market value of the property. After preliminary estimates of value have been determined in targeted areas, the appraiser takes valuation documents to the field to test the computer-assisted values against his own appraisal judgment. During this review, the appraiser is able to physically inspect both sold properties and unsold properties for comparability and consistency of values.

OFFICE REVIEW

Once field review is completed, the appraiser conducts a routine valuation review of all properties as outlined discussion of ratio studies and market analysis. Valuation reports comparing previous values against proposed and final values are generated for all residential improved and vacant properties. The percentage of value difference are noted for each property within a delineated neighborhood allowing the appraiser to identify, research and resolve value anomalies before final appraised values are released. Previous values resulting from a protest hearing are individually reviewed determined if the value remains appropriate for the current year.

Once the appraiser is satisfied with the level and uniformity of value for each neighborhood within his area of responsibility, the estimates of value go to noticing.

PERFORMANCE TESTS

SALES RATIO STUDIES

The primary analytical tool used by the appraisers to measure and improve performance is the ratio study. The district ensures that the appraised values that it produces meet the standards of accuracy in several ways. Overall sales ratios are generated for each neighborhood to allow the appraiser to review general market trends within their area of responsibility and provide an indication of market appreciation over a specified period of time. The PC based ratio studies are designed to emulate the findings of the state comptroller's annual property value study for category A property.

MANAGEMENT REVIEW PROCESS

Once the proposed value estimates are finalized, the appraiser reviews the sales ratios by neighborhood and presents pertinent valuation data, such as weighted sales ratio and pricing trends, to the Chief Appraiser for final review and approval. The review includes comparison of level of value between related neighborhoods within and across jurisdiction line. The primary objective of this review is to ensure that the proposed values have met present appraisal guidelines appropriate for the tax year in question.

COMMERCIAL AND INDUSTRIAL PROPERTY VALUATION PROCESS

INTRODUCTION

APPRAISAL RESPONSIBILITY

This mass appraisal assignment includes all the commercially described real property which falls within the responsibility of the commercial valuation appraisers of the San Augustine Central Appraisal District and located within the boundaries of this taxing jurisdiction. Commercial appraisers appraise the fee simple interest of properties according to statute and court decisions. However, the effect of easements, restrictions, encumbrances, leases, contracts or special assessments are considered on an individual basis, as is the appraisal of any non-exempt taxable fractional interest in real property (i.e. certain multi-family housing projects). Fractional interests or partial holdings of real property are appraised in fee simple for the whole property and divided programmatically based on their prorated interests.

APPRAISAL RESOURCES

- Personnel – The improved real property appraisal responsibilities are categorized according to major property types of multi-family or apartment, office, retail, warehouse and special use(i.e. hotels and nursing homes)
- The following appraisers are responsible for estimating the market value of Commercial Property:
 - Evelyn Watts, Chief Appraiser. Commercial and Residential Appraiser
 - Lori Prouty-Harper, Commercial and Residential Appraiser
 - Joseph Barnett – Residential Appraiser
- Data – The data used by the commercial appraisers include verified sales of vacant land and improved properties and the pertinent data obtained from each(sales price levels, capitalization rates, income multipliers, equity dividend rater, marketing period, etc.). Other data used by the appraisers includes actual income and expense data(typically obtained through the hearing process), actual contract rental data, leasing information(commissions, tenant finish, length of terms, etc.), and actual construction cost data. In addition to the actual data obtained from specific properties, market data publications are also reviewed to provide additional support for market trends.

PRELIMINARY ANALYSIS

MARKET STUDY

Market studies are utilized to test new or existing procedures or valuation modifications in a limited sample of properties located in the district and are also considered and become the basis of updating whenever substantial changes in valuation are made. These studies target certain types of improved property to evaluate current market prices for rents and for sales of commercial and industrial real property. These comparable sale studies and ratio studies reveal whether the valuation system is producing accurate and reliable value estimates or whether procedural and economic modifications are required. The appraiser implements this methodology when developing cost approach, market approach and income approach models.

San Augustine CAD coordinates its discovery and valuation activities with adjoin appraisal districts. Numerous field trips, interviews and data exchanges with adjacent appraisal districts have been conducted to ensure compliance with state statues. In addition, San Augustine CAD administration and personnel interact with other assessment officials through professional trade organizations including the International Association of Assessing Officers, Texas Association Of Appraisal Districts, Texas Rural Chief Appraisers and Texas Association Of

Assessing Officers. District staff strive to maintain appraisal and professional skills by continuing education in the form of courses offered by several professional associations such as International Association of Assessing Officers (IAAO), Texas Association Of Assessing Officers (TAAO) and Texas Association Of Appraisal Districts (TAAD).

VALUATION APPROACH

LAND VALUE

Commercial land is analyzed to compare appraised values with recent sales of land in the market area. If appraised values differ from sales prices being paid, adjustments are made to all land in that region. Generally, commercial property is appraised on a price per square foot basis. Factors are placed on individual properties based on corner influence, depth of site, shape of site, easements across site and other factors that may influence value. The land is valued as though vacant at the highest and best use.

AREA ANALYSIS

Area data on regional economic forces such as demographic patterns, regional location factors, employment and income patterns, general trends in real property prices and rents, interest rate trends, availability of vacant land, and construction trends and costs are collected from private vendors and public sources.

NEIGHBORHOOD ANALYSIS

The neighborhood and market areas are comprised of the land area and commercially classed properties located within the boundaries of this appraisal jurisdiction. These areas consist of a wide variety of property types including multiple-family residential, commercial and industrial. Neighborhood and area analysis involves the examination of how physical, economic, governmental and social forces and other influences may affect property values within subgroups of property locations. The effects of these forces are also used to identify, classify and organize comparable properties into smaller, manageable subsets of the universe of properties known as neighborhoods. In the mass appraisal of commercial and industrial properties these subsets of a universe of properties are generally referred to as market areas, neighborhoods or economic areas.

Economic areas are defined by each of the improvement property use types (apartment, office, retail, warehouse and special use) based upon an analysis of similar economic or market forces. These include but are not limited to similarities of rental rates, classification of projects (known as building class by area commercial market experts), date of construction, overall market activity or other pertinent influences. Economic area identification and delineation by each major property use type is the benchmark of the commercial valuation system. All income

model valuation(income approach to value estimate) is economic area specific. Economic areas are periodically reviewed to determine if re-delineation is required. The geographic boundaries as well as income occupancy and expense levels and capitalization rates by age within each economic area for all commercial use types and its corresponding income model have been estimated for these properties.

HIGHEST AND BEST USE ANALYSIS

The highest and best use is the most reasonable and probable use that generates the highest net to land and present value of the real estate as of the date of valuation. The highest and best use of any given property must be physically possible, legally permissible, financially feasible and maximally productive. For improved properties highest and best use is evaluated as improved and as if the site were still vacant. This perspective assists in determining if the existing improvements have a transitional use, interim use, nonconforming use, multiple uses, speculative use, is excess land or different optimum use if the site were vacant. For vacant tracts of land within this jurisdiction, the highest and best use is considered speculative based on the surrounding land uses. Improvement properties reflect a wide variety of highest and best uses which include, but are not limited to: office, retail, apartment, warehouse, light industrial, special purpose or interim uses. In many instances, the property's current use is the same as its highest and best use. This analysis insures that an accurate estimate of market value(sometimes referred to as value in exchange) is derived.

On the other hand, value in use represents the value of a property to a specific user for a specific purpose. This perspective for value may be significantly different than market value, which approximates market price under the following assumptions: (i) no coercion of undue influence over the buyer or seller in an attempt to force the purchase or sale, (ii) well informed buyers and sellers acting in their own best interest, (iii) a reasonable time for the transaction to take place and (iv) payment in cash or its equivalent.

MARKET ANALYSIS

A market analysis relates directly to examining market forces affecting supply and demand. This study involves the relationship between social, economic, environmental, governmental and site conditions. Current market activity including sales of commercial properties, new construction, new leases, lease rates, absorption rates, vacancies, allowable expenses(inclusive of replacement reserves), expense ratio trends, capitalization rate studies are analyzed to determine market ranges in price, operation costs and investment return expectations.

DATA COLLECTION/VALIDATION

DATA COLLECTION MANUALS

Data collection and documentation for Commercial/Industrial property is continually updated, providing a uniform system of itemizing the multitude components comprising improved properties. All properties located in San Augustine CAD's inventory are coded according to a specific classification system and the approaches to value are structured and calibrated based on this coding system.

Annually, after the sales of property have been researched, verified, keyed into the database and quality control has been completed, the sales data is summarized and produced into list form. The confirmed sales reports, known as the Commercial Improved and Vacant Land sales listings, categorize the sales of property and use type, and sort the data by location and chronological order. Many of these sales are available to the public for use during protest hearings and are also used by the San Augustine CAD appraisers during the hearing process.

SOURCES OF DATA

In terms of commercial sales data, San Augustine CAD receives a copy of the deeds recorded in San Augustine County and adjoining counties that convey commercially classed properties. These deeds involving a change in commercial ownership are entered into the sales information system and researched in an attempt to obtain the pertinent sale information. Other sources of sale data include the protest hearing process and local, regional and national real estate and financial publications.

For those properties involved in a transfer of commercial ownership, a sale file is produced which begins the research and verification process. The initial step in sales verification involves a computer-generated questionnaire, which is mailed to both parties in the transaction (Grantor and Grantee). If a questionnaire is answered and returned, the documented responses are recorded into the computerized sales database system. If no information is provided, verification of many transactions is then attempted via phone calls to parties thought to be knowledgeable of the specifics of the sale. Other sources contacted are brokers involved in the sale, property managers or commercial vendors. In other instances, sales verification is obtained from local appraisers or others that may have the desired information. Finally, closing statements are often provided during the hearing process. The actual closing statement is the most reliable and preferred method of sales verification.

VALUATION ANALYSIS

Model calibration involves the process of periodically adjusting the mass appraisal formulae, tables and schedules to reflect current local market conditions. Once the models have undergone the specification process, adjustments can be made to reflect new construction procedures, materials and/or costs, which can vary from year to year. The basic structure of a mass appraisal model can be valid over an extended period of time, with trending factors utilized for updating the data to the current market conditions. However, at some point, if the adjustment process becomes too involved, the model calibration technique can mandate new model specifications or a revised modeled structure.

COST SCHEDULES

The cost approach to value is applied to improved real property utilizing the comparative unit method. This methodology involves the utilization of national cost data reporting services as well as actual cost information on local comparable properties whenever possible. Cost models include the derivation of replacement cost new (RCN) of all improvement represented within the district. These include comparative base rates, per unit adjustments and lump sum adjustments for variations in property description, design and types of improvement construction. This approach and analysis also employs the sales comparison approach in the evaluation of soft or indirect costs of construction. Evaluating market sales of newly developed improved property is an important part of understanding total replacement cost of improvements. What total costs may be involved in the development of the property, as well as any portion of cost attributed to entrepreneurial profit can be revealed by market analysis of pricing acceptance levels. In addition, market related land valuation for the underlying land value is important in understanding and analyzing improved sales for all development costs and for the abstraction of improvement costs for construction and development. Time and location modifiers are necessary to adjust cost data to reflect conditions in a specific market and changes in costs over a period of time. Because a national cost service is used as a basis for the cost models, location modifiers and estimates of soft cost factors are necessary to adjust these base costs specifically for various types of improvements located in San Augustine County. Thusly, local modifiers are additional cost factors applied to replacement cost estimated by the national cost service. Estimated replacement cost new will reflect all costs of construction and development of various improvements located in San Augustine Central Appraisal District as of the date of appraisal.

Accrued depreciation is the sum of all forms of loss affecting the contributory value of the improvements. It is the measured loss against replacement cost new taken from all forms of physical deterioration, functional and economic obsolescence. Accrued depreciation is estimated and developed based on losses typical for each property type at that specific age. Depreciation estimates have been implemented for what is typical of each major class of

commercial property economic life categories. Estimates of accrued depreciation have been calculated for improvements with a range of variable years expected life based on observed condition considering actual age. These estimates are continually tested to ensure they are reflective of current market conditions. The actual or effective ages of improvements are noted in CAMA. Effective age estimates are based on utility of the improvements relative to where the improvement lies on the scale of its total economic life and its competitive position in the marketplace. Effective age estimates are considered and reflected based on five levels or rankings of observed condition, given actual age.

Additional forms of depreciation such as external and/or functional obsolescence can be applied if observed. A depreciation calculation override can be used if the condition or effective age of a property varies from the norm by appropriately noting the physical condition and functional utility ratings on the property data characteristics. These adjustments are typically applied to a specific condition adequacy or deficiency, property type or location and can be developed via ratio studies or other market analysis.

The result of estimating accrued depreciation and deducting that from the estimated replacement cost new of improvements indicates the estimated contributory value of improvement. Adding the estimated land value, as if vacant, to the contributory value of the improvements indicates a property value by the cost approach. Given relevant cost estimates and market related measures of accrued depreciation, the indicated value of the property by the cost approach becomes a very reliable valuation technique.

INCOME MODELS

The income approach to value is applied to those real properties which are typically viewed by market participants as "income producing", and for which the income methodology is considered a leading value indicator. The first step in the income approach pertains to the estimation of market rent on a per unit basis. This is derived primarily from actual rent data furnished by property owners and from local market surveys conducted by the district and by information from area rent study reviews. This per unit rental rate multiplied by the number of units results in the estimate of potential gross rent.

A vacancy and collection loss allowance is the next item to consider in the income approach. The projected vacancy and collection loss allowance is established from actual data furnished by property owners and local market survey trends. This allowance accounts for periodic fluctuations in occupancy, both above and below an estimated stabilized level. This feature may also provide for a reasonable lease-up period for multi-tenant properties, where applicable. The market derived stabilized vacancy and collection loss allowance is subtracted from the potential gross rent estimate to yield an indication of estimated annual effective gross rent to the property.

Next, a secondary income or service income is considered and, if applicable, calculated as a percentage of stabilized effective gross rent. Secondary income represents parking income,

escalations, reimbursements and other miscellaneous income generated by the operations of real property. The secondary income estimate is derived from actual data collected and available market information. The secondary income estimate is then added to effective gross rent to arrive at an effective gross income, when applicable.

Allowable expenses and expense ratio estimates are based on a study of the local market, with the assumption of prudent management. An allowance for non-recoverable expenses such as leasing costs and tenant improvements may be included in the expenses. A non-recoverable expense represents costs that the owner pays to lease rental space. Relevant expense ratios are developed for different types of commercial property based on use and market experience. For instance, retail properties are most frequently leased on a triple-net basis, whereby the tenant is responsible for all operating expenses, such as ad valorem taxes, insurance and common area and property maintenance. In comparison, a general office building is most often leased on a base year expense stop. This lease type stipulates that the owner is responsible for all expenses incurred during the first year of the lease. As a result, expense ratios are implemented and estimated based on observed market experience in operating various types of commercial property.

Another form of allowable expense is the replacement of short-lived items (such as roof or floor coverings, air conditioning or major mechanical equipment or appliances) requiring expenditures of lump sum costs. When these capital expenditures are analyzed for consistency and adjusted, they may be applied on an annualized basis as stabilized expenses. When performed according to local market practices by commercial property type, these expenses when annualized are known as replacement reserves. For some types of property, typical management does not reflect expensing reserves and is dependent on local and industry practices.

Subtracting the allowable expenses (inclusive of non-recoverable expenses and replacement reserves when applicable) from the annual effective gross income yields an estimate of annual net operating income to the property.

Return rates and income multipliers are used to convert operating income expectations into an estimate of market value for the property under the income approach. These include income multipliers, overall capitalization rates and discount rates. Each of these multipliers or return rates are considered and used in specific applications. Rates and multipliers may vary between property types, as well as by location, quality, condition, design, age and other factors. Therefore, application of the various rates and multipliers must be based on a thorough analysis of the market for individual income property types and uses. These procedures are supported and documented based on analysis of market sales for these property types.

Capitalization analysis is used in the income approach models to form an indication of value. This methodology involves the direct capitalization of net operating income as an indication of market value for a specific property. Capitalization rates applicable for direct capitalization method and yield rates for estimating terminal cap rates for discounted cash flow analysis are

derived from the market. Sales of improved properties from which actual income and expense data are obtained provide a very good indication of property return expectations a specific market participant is requiring from an investment at a specific point in time. In addition, capitalization rates can be derived and estimated from the built-up (band-of-investment). This method relates to satisfying estimated market return requirements of both the debt and equity positions in a real estate investment. This information is obtained from available sales of property, local lending sources and from real estate and financial publication.

Rent loss concessions are estimated for specific properties with vacancy problems. A rent loss concession accounts for the impact of lost rental income while the building is moving toward stabilized occupancy. The rent loss is calculated by multiplying the rental rate by the percent difference of the property's stabilized occupancy and its actual occupancy. Build out allowances (for first generation space or retrofit/second generation space as appropriate) and leasing expenses are added to the rent loss estimate. The total adjusted loss from these real property operations is discounted using an acceptable risk rate. The discounted value (inclusive of rent loss due to extraordinary vacancy, build out allowances and leasing commissions) becomes the rent loss concession and is deducted from the value indication of the property at stabilized occupancy. A variation of this technique allows a rent loss deduction to be estimated for every year that the property's actual occupancy is less than stabilized occupancy.

SALES COMPARISON(MARKET) APPROACH

Although all three of the approaches to value are based on market data, the Sales Comparison Approach is most frequently referred to as the Market Approach. This approach is utilized not only for estimating land value but also in comparing sales of similarly improved properties to parcels on the appraisal roll. As previously discussed in the Data Collection/Validation section of this report, pertinent data from actual sales of properties, both vacant and improved, is pursued throughout the year in order to obtain relevant information which can be used in all aspects of valuation. Sales of similarly improved properties can provide a basis for the depreciation schedules in the Cost Approach, and as a direct comparison in the Sales Comparison Approach. Improved sales are also used in ratio studies, which afford the appraiser an excellent means of judging the present level and uniformity of the appraised values.

FINAL VALUATION SCHEDULES

Based on the market data analysis and review discussed previously in the cost, income and sales approaches, the cost and income models are calibrated and finalized. The calibration results are keyed to the schedules and models in the CAMA system for utilization on all commercial properties in the district. Market factors reflected within the cost and income approaches are evaluated and confirmed based on market sales of commercial and industrial properties. The appraisers review the cost, income and sales comparison approaches to value for each of the types of properties with available sales information. The final valuation of a

property is estimated based on reconciling these indications of value considering the weight of the market information available for evaluation and analysis in these approaches to value.

STATISTICAL AND CAPITALIZATION ANALYSIS

Statistical analysis of final values is an essential component of quality control. This methodology represents a comparison of the final value against the standard and provides a concise measurement of the appraisal performance. Statistical comparisons of many different standards are used including sales of similar properties, the previous year's appraised value, audit trails, value change analysis and sales ratio analysis.

Appraisal statistics of central tendency and dispersion generated from sales ratios are calculated for each property type with available sales data. These summary statistics including, but not limited to, the weighted mean, provide the appraisers an analytical tool by which to determine both the level and uniformity of appraised value of a particular property type. The level of appraised values can be determined by the weighted mean for individual properties within a specific typed and a comparison of weighted means can reflected the general level of appraised value.

The appraisers review every commercial property type annually through the sales ratio analysis process. The first phase involves ratio studies that compare the recent sales process of properties to the appraised values of the sold properties. This set of ratio studies affords the appraiser an excellent means of judging the present level of appraised value and uniformity of the appraised values. The appraiser based on the sales ratio statistics and designated parameters for valuation update, make a preliminary decision as to whether the value level of a particular property type needs to be updated in an upcoming reappraisal or whether the level of market value is at an acceptable level.

Potential gross rent estimates, occupancy levels, secondary income, allowable expenses(inclusive of non-recoverables and replacement reserves), net operating income and capitalization rate and multipliers are continuously reviewed. Income models estimates and conclusions are compared to actual information obtained on individual commercial and industrial income properties during the protest hearing process, as well as with information from published sources and area property managers and owners.

INDIVIDUAL VALUE REVIEW PROCEDURES

FIELD REVIEW

The date of last inspection, extent of that inspection and the San Augustine CAD appraiser responsible are listed in the CAMA system. If a property owner disputes the District's records concerning this data in a protest hearing, CAMA may be altered based on the credibility of the evidence provided. Normally, a new field check is then requested to verify this information for

the current year's valuation or for the next year's valuation. In addition, if a building permit is filed for a particular property indicating a change in characteristics, that property is added to a work file for review.

Commercial appraisers are somewhat limited in the time available to field review all commercial properties of a specific use type. However, a major effort is made by appraisers to field review as many properties as possible or economic areas experiencing large number of remodels, renovations or retrofits, changes in occupancy levels or rental rates, new leasing activity, new construction or wide variations in sale prices. Field review of real property accounts is accomplished while business personal property is reviewed and inspected in the field. Additionally, the appraisers frequently field review subjective data items such as building class, quality of construction (known as cost modifiers), condition and physical, functional and economic obsolescence factors contributing significantly to the market value of the property. In some cases filed reviews are warranted when sharp changes in occupancy or rental rate levels occur between building classes or between economic areas. With preliminary estimates of value in these targeted areas, the appraisers test computer assisted values against their own appraisal judgment. While in the field, the appraisers physically inspect sold and unsold properties for comparability and consistency of values.

OFFICE REVIEW

Office reviews are completed on properties subject to field inspections and are performed in compliance with the guidelines required by the existing classification systems. Office reviews are typically limited by the available market data presented for final value analysis. These reviews summarize the pertinent data of each property as well as comparing the previous value to the proposed value conclusions of the various approaches to value. These evaluations and reviews show proposed value changes, income model attributes or overrides, economic factor (cost overrides) and special factors affecting the property valuation such as new construction status and a three year sales history (USPAP property history requirement for non residential property). The appraiser may review methodology for appropriateness to ascertain that it was completed in accordance with USPAP or more stringent statutory and district policies. This review is performed after preliminary ratio statistics have been applied. If the ratio statistics are generally acceptable overall the review process is focused primarily on locating skewed results on an individual basis. Previous values resulting from protest hearings are individually reviewed to determine if the value remains appropriate for the current year based on market conditions. Each appraiser's review is limited to properties in the area of responsibility by property type (improved) or geographic area (commercial vacant land).

Once the appraiser is satisfied with the level and uniformity of value for each commercial property within their area of responsibility, the estimates of value go to noticing. Each parcel is subjected to the value parameters appropriate for its use type.

PERFORMANCE TESTS

The primary tool used to measure mass appraisal performance is the ratio study. A ratio study compares appraised values to market prices. In a ratio study, market values(value in exchange) are typically represented with the range of sale prices, i.e. sales ratio study. Independent expert appraisals may also be used to represent market values in a ratio study, i.e. appraisal ratio study. If there are not enough examples of market price to provide necessary representatives, independent appraisals can be used as indicators for market value. This can be particularly useful for commercial or industrial real property for which sales are limited. In addition, appraisal ratio studies can be used for properties statutorily not appraised at market value, but reflect the use-value requirement. An example of this are multi-family housing projects subject to subsidized rent provisions or other governmental guarantees as provided by legislative statutes(affordable housing) or agricultural lands to be appraised on the basis of productivity or use value.

San Augustine CAD has adopted the policies of IAAO STANDARDS IN RATIO STUDIES, regarding its ratio study standards and practices. Ratio studies generally have six basic steps: (1) determination of the purpose and objectives, (2) data collection and preparation, (3) comparing appraisal and market data, (4) stratification, (5) statistical analysis and (6) evaluation and application of the results.

SALES RATIO STUDIES

Sales ratio studies are an integral part of estimating equitable and accurate market values and ultimately property assessments for these taxing jurisdictions. The primary uses of sale ratio studies include the determination of a need for general reappraisal; prioritizing selected groups of property types for reappraisal; identification of potential problems with appraisal procedures; assist in market analysis and to calibrate models used to estimate appraised values during valuation or reappraisal cycles. However, these studies cannot be used to judge the accuracy of an individual property appraised value. The San Augustine County Appraisal Review Board may make individual value adjustments based on unequal appraisal(ratio) protest evidence submitted on a case-by-case basis during the hearing process.

Overall sales ratios are generated by use type semi-annually(or more often in specific areas) to allow appraisers to view general market trends in their area of responsibility and for the Property Study from the Property Tax Division of the Comptroller's Office. Field checks may be conducted to insure the ratios produced are accurate and the appraised values utilized are based on accurate property data characteristics. These ratio studies aid the appraisers by providing an indication of market activity by economic area or changing market conditions(appreciation or depreciation).

COMPARATIVE APPRAISAL ANALYSIS

The commercial appraiser performs an average unit value comparison in addition to a traditional ratio study. These studies are performed on commercially classed properties by property use type (such as apartment, office, retail and warehouse usage or special use). The objective to this evaluation is to determine appraisal performance of sold and unsold properties. Appraisers average unit prices of sales and average unit appraised values of the same parcels and the comparison of average value changes of sold and unsold properties. These studies are conducted on substrata such as building class and on properties located within various economic areas. In this way, overall appraisal performance is evaluated geographically, by specific property type to discern whether sold parcels have been selectively appraised. When sold parcels and unsold parcels are appraised equally, the average unit values are similar. These sales and equity studies are performed prior to final appraisal and to annual noticing.

BUSINESS PERSONAL PROPERTY VALUATION PROCESS

INTRODUCTION

APPRAISAL RESPONSIBILITY

There are four different personal property types appraised by the district's personal property section: business personal property accounts; leased assets; vehicles and multi-location assets.

- PERSONNEL-The personal property staff consist of 3 appraisers and no support staff.
 - Evelyn Watts-Chief Appraiser, Income Property-Residential-Business Personal Property-Appraiser
 - Lori Prouty-Harper-Residential-Commercial-Business Personal Property Appraiser
 - Joseph Barnett – Residential Appraiser
-
- DATA-A common set of data characteristics for each personal property account in San Augustine CAD is collected in the field. The property characteristic data drives the computer-assisted personal property appraisal (CAPPA) system. The personal property appraisers collect the field data and maintain electronic property files making updates and changes gathered from field inspections, newspaper, property rendition, sales tax permit listing and interviews with property owners.

VALUATION APPROACH

SIC CODE ANALYSIS

Business personal property is classified and utilizes a four digit numeric codes, called Standard Industrial Classification(SIC) codes that were developed by the federal government to describe property. These classifications are used by San Augustine CAD to classify personal property by business type. SIC code identification and delineation is the cornerstone of the personal property valuation system at the district. All of the personal property analysis work done in association with the personal property valuation process is SIC code specific. SIC codes are delineated based on observable aspects of homogeneity and business use.

HIGHEST AND BEST USE ANALYSIS

The highest and best use of property is the reasonable and probable use that supports the greatest income and the highest present value as of the date of the appraisal. The highest and best use must be physically possible, legal, financially feasible and productive to its maximum. The highest and best use of personal property is normally its current use.

DATA COLLECTION/VALIDATION

DATA COLLECTION PROCEDURES

Personal property data collection procedures are published and distributed to all appraisers involved in the appraisal and valuation of personal property. The appraisal procedures are reviewed and revised to meet the changing requirements of field data collection.

SOURCES OF DATA

BUSINESS PERSONAL PROPERTY

The district's property characteristics data was collected through a massive field data collection effort coordinated by the district over the recent past and from property owner renditions. From year to year, reevaluation activities permit district appraisers to collect new data via an annual field inspection. This project results in the discovery of new businesses, changes in ownership, relocation of businesses and closures of businesses not revealed through other sources. Tax assessors, city and local newspaper and the public often provide the district

information regarding new personal property and other useful facts related to property valuation.

VEHICLES

An outside vendor(JUST TEXAS) provides San Augustine CAD with a listing of vehicles within the jurisdiction, The vendor develops this listing from the Texas Department Of Transportation(TxDOT) Title and Registration Division records. Other sources of data include property owner renditions and field inspections.

LEASED AND MULTI-LOCATION ASSETS

The primary source of leased and multi-location assets is property owner renditions of property. Other sources of data include field inspections.

VALUATION AND STATISTICAL ANALYSIS(Model Calibration)

COST SCHEDULES

Cost schedules are developed based on the SIC code by the Property Tax Division of the Comptroller's Office and by district personal property valuation appraisers. The cost schedules are developed by analyzing cost data from property owner renditions, hearing, state schedules and published cost guides. The cost schedules are review as necessary to conform to changing market conditions. The schedules are typically in a price per square foot format, but some exception SIC's are in an alternate price per unit format, such as per room for hotels.

STATISTICAL ANALYSIS

Summary statistics including, but not limited to, the median, weighted mean and standard deviation provide the appraisers an analytical tool by which to determine both the level and uniformity of appraised value by SIC code. Review of the standard deviation can discern appraisal uniformity within SIC codes.

DEPRECIATION SCHEDULE AND TRENDING FACTORS

BUSINESS PERSONAL PROPERTY

San Augustine CAD's primary approach to the valuation of business personal property is the cost approach. The replacement cost new(RCN) is either developed from property owner reported historical or from CAD developed valuation models. The trending factors used by the

CAD to develop RCN are based on published valuation guides. The percent good depreciation factors used by San Augustine CAD are based on state depreciation schedules. The index factors are used to developed present value factors(PVF), by year of acquisition, as follows:

$$PVF=INDEX FACTOR \times PERCENT GOOD FACTOR$$

The PVF is used as an "express" calculation in the cost approach. The PVF is applied to reported historical cost as follows:

$$MARKET VALYE ESTIMATE = PVD \times HISTORICAL COST$$

This mass appraisal PVF schedule is used to ensure that estimated values are uniform and consistent within the market and reflect current economic pressures of supply and demand.

COMPUTER ASSISTED PERSONAL PROPERTY APPRAISAL(CAPPA)

The CAPPA valuation process has two main objectives: 1)Analyze and adjust estimated asset cost with existing SIC models. 2)Develop new models for business classifications not previously integrated into CAPPA. The delineated sample is reviewed for accuracy of SIC code, square footage, field data and original cost information. Models are created and refined using actual original cost data derived as a typical replacement cost new(RCN) per square foot for a specific category of assets. The RCN per square foot is depreciated by the estimated age using the depreciation table adopted for the tax year.

The data sampling process is conducted in the following order; 1)Prioritizing Standard Industrial Classification(SIC) codes for model analysis: 2)Compiling the data and developing the reports: 3)Field checking the selected samples. The models are built and adjusted using internally developed software. The models are then tested against the previous year's data. The typical RCN per square foot(applicable unit) is determined by a statistical analysis of the available data.

CAPPA model values are used in the general business personal property valuation program to estimate the value of new accounts for which no property owner's rendition is filed. Model values are also used to establish tolerance parameters for testing the valuation of property for which prior data years' data exist or for which current year rendered information is available. The calculated current year value or the prior year's value is compared to the indicated model value by the valuation program. If the value being tested is within an established acceptable percentage tolerance range of the model value, the account passes that range check and moves to the next valuation step. If the account fails the tolerance range check, it is flagged for individual review. Allowable tolerance ranges may be adjusted from year to year depending on the analysis of the results of the prior year.

INDIVIDUAL VALUE REVIEW PROCEDURES

OFFICE REVIEW

BUSINESS PERSONAL PROPERTY

A district valuation computer program exists in a mainframe environment that identifies accounts in need of review based on a variety of conditions. Property owner renditions, accounts with field or other data changes, accounts with prior hearings, new accounts and SIC cost table changes are all considered. The accounts are processed by the valuation program and pass or fail present tolerance parameters by comparing appraised values to prior year and model values. The appraisers review accounts that fail the tolerance parameters.

PERFORMANCE TESTS

RATIO STUDIES

Each year the Property Tax Division of the state comptroller's office conducts a property value study(PVS). The PVS is a ratio study used to gauge appraisal district performance. Results from the PVS play a part in school funding. Rather than a sales ratio study, the personal property PVS is a ratio study using state cost and depreciation schedules to develop comparative personal property values. These values are then compared to San Augustine CAD's personal property values and ratios are indicated.

MINERALS(OIL & GAS RESERVES) VALUATION PROCESS

INTRODUCTION

APPRAISAL RESPONSIBILITY-OUTSIDE APPRAISAL FIRM(PRITCHARD & ABBOTT, INC.)

MINERALS-In place(oil and gas reserves) are real property. Appraisal of minerals, oil and gas reserves, is based on estimating the present value of the economically recoverable reserves of oil and gas. Mineral rights are property rights and may be separable property interests from the land surface property rights. Minerals being produced are a tangible asset and are appraised for ad valorem taxation. The valuation of minerals-in-place is based on estimating the discounted net present value of the oil and gas production over the economic life of all well(s). Basically, this method of valuation is an income approach using discounted cash flow analysis methodology. Oil and gas properties are also marketed based on proven reserves and the unit of comparison in this market is considered in barrels of oil or in cubic feet of natural gas. The market approach is based on sales of property on barrels of proven reserves.

Mineral interest are commonly divided into property interests known as working interests and royalty interests. The valuation of this property begins with the valuation of the mineral lease and is divided into the property interests according to division orders for each lease. It is the goal and purpose of the CAD to identify every producing mineral property interest within the district and estimate the market value of each property interest on the roll.

APPRAISAL RESOURCES

- PERSONNEL-The mineral property staff consists of an outside appraisal firm Pritchard & Abbott, Inc. (See the attached Reappraisal plan submitted by Pritchard & Abbott, Inc.)

DATA-A common set of data characteristics for each mineral property account in San Augustine CAD is collected from the Texas Railroad Commission Records and data entered to the district's computer. The property characteristic data drives the computer-assisted mineral property appraisal system. Railroad Commission records are searched to discover new leases as of January 1 of the year and legal descriptions are gathered to determine the location of the lease within San Augustine CAD jurisdictional boundaries. Records are also reviewed for changes in production for existing wells and for abandoned wells with salvage value for equipment, tanks and tubular goods. Production history for each mineral lease is gathered from HIS Energy

production records and from Texas Railroad Commission. Division Orders on each lease are requested annually from lease operators and checked against the appraisal roll for accuracy of owner name, address and ownership percentage interest. To assist with operating information, an annual Confidential Lease Operating Expense Survey is mailed to the operator of each active lease requesting lease-specific operating information on oil and gas pricing, operating expenses and possible market sales of leases.

To assist the economic parameters influencing these properties, general economic data is gathered for the valuation process. The method of appraisal for minerals-in-place is the discounted cash flow method which looks at the net present value of operating the lease. Current interest rates, market rates of return and levels of discounting the investment are factors to consider when evaluating the returns necessary to attract investment capital for this type property. Capitalization rates are estimated based on data from the general market for oil and gas property. East Texas Intermediate Crude product prices are tracked on a daily basis from Plains Marketing, a regional product gathering and marketing company and the primary buyer for oil and gas produced in the area. Other capital market information and return rates for investors participating in the oil and gas market is taken from the Oil & Gas Journal, Ibbotson's SBBI Valuation Edition, Wall Street Journal, Mergent Bond Record, Moody's Corporate Bond Yield Averages and Value Line Investment Survey "Ratings and Reports".

VALUATION AND STATISTICAL ANALYSIS(Model Calibration)

PRICING, OPERATING EXPENSES AND RESERVE ANALYSIS

Crude oil and natural gas prices are important information in the valuation of mineral property because these prices help determine income to the lease and are a significant factor in determining the economic life of the production from the lease. Price analysis and estimates from crude oil and natural gas produced is based on the previous year's average price as per Texas Property Tax Code(Sec 23.175). Prices paid for production for each lease is analyzed and averaged to evaluate the estimate average for the area.

Lease operating expenses are estimated based on rendered information and actual operating cost and expense from surveys of lease operators in San Augustine CAD. Decline curve analysis estimates the rate of production decline and is formulated using past production operating expenses and recent operation parameters such as water production, lease repairs and secondary recovery efforts. Current operating income and expenses for the lease are considered and estimated in a discounted cash flow model to allow the appraiser to evaluate and estimate the net present value of producing oil and gas from the lease. Capitalization rates and discounting return rates are estimated for each lease based upon the particular risks inherent with production of oil and gas from that property. These risks may vary considerably from one lease to another depending several factors influencing the production from that particular lease. The discounted cash flow model method will allow the appraiser to evaluate current market value of the lease based on the estimated recoverable reserves. This

methodology is approved and recommended by the Property Tax Division of the Comptroller's Office and is a recognized method of appraisal by industry standards. We have utilized the discounted cash flow model to estimate the market value of each lease located in San Augustine CAD.

VALUE REVIEW PROCEDURES

The method of value review for this type of property is based on the review of the factors estimated within the discounted cash flow analysis methodology such as the discount rate, product prices and operating expenses. Evaluation and verification of these economic factors as to their validity within current economic times and based on current capital requirements for investment in this type property is re-confirmed and reviewed for reasonableness. Sales of mineral properties are considered but adequate sale data is usually not available due to difficulty in confirming sales. The market for this type of property is neither an active nor an efficient market, there are very few participants and pricing information is mostly confidential. There is no central source for tracking these transactions and property owners are reluctant to reveal market information concerning prices paid or terms of the transaction. Because of a lack of market sales on mineral property, appraised values are regularly compared to similar properties within the same production field, field of exploration, strata of formation or production history and expense level.

Ratio studies are a source of comparison to evaluation level and uniformity of appraisal. When market sales are available the ratio study is based on a comparison of the appraised value to the sale price. For mineral property, which lacks available market sales, a ratio study is a comparison of another appraisal opinion with the opinion of the district to determine level and uniformity of appraisal. The Property Tax Division of the Comptroller's Office conducts an annual ratio study of selected mineral properties to gauge the districts appraisal performance. The PTD utilizes the same valuation methodology to appraise individual mineral properties. This opinion of value is then utilized as market evidence with the same significance as if the property sold for that value. The estimated value of the property by San Augustine CAD is compared to the appraisal by the PTD to calculate the ratio and the indicated level of appraisal. This study indicates the median and mean levels of appraisal for mineral property and is considered reliable as a review and evaluation tool.

UTILITY PROPERTY VALUATION PROCESS

INTRODUCTION

APPRAISAL RESPONSIBILITY – OUTSIDE APPRAISAL FIRM(PRITCHARD & ABBOTT, INC.)

Utility properties are the tangible assets of various businesses including electric production, transmission and distribution companies, railroads, petroleum product gathering and delivery pipelines, telephone and communication providers and others. The valuation of these properties is considered to be complex due to the involvement of both tangible and intangible property elements that comprise these businesses and due to the size of some of the utilities

that are regional and national companies. The appraisal of these companies becomes complex when considering the valuation of the property as a unit in place, evaluating the property by the approaches to value at the company level. Once the estimated value is allocated based on the tangible property assets that are located within San Augustine CAD.

APPRAISAL RESOURCES

- PERSONNEL-THE UTILITY PROPERTY STAFF CONSISTS OF OUTSIDE APPRAISAL FIRM-PRITCHARD & ABBOTT, INC. (SEE ALSO THE ATTACHED REAPPRAISAL PLAN SUBMITTED BY PRITCHARD & ABBOTT, INC.

DATA – A common set of data characteristics for each utility property account in San Augustine CAD is collected from the various government regulatory agency records, field inspections and property owner renditions. This data is entered into the district's computer. Individual company financial information is gathered through industry specific governmental filings such as Federal Energy Regulatory Commission Reports, Securities and Exchange Commission 10-K filings and Public Utility Commission publications. Other company information is gathered from annual reports, internal appraisals and other in-house and industry publications. Property owner renditions are requested to document and list property owned and located in our particular jurisdictions(i.e track mileage, number of meters, pipeline size and mileage, substation and transmission capacity, etc.). The property characteristic data drives the computer-assisted appraisal of the property.

The appraisal of utility property utilizes three-approaches analysis to form an opinion of value for the property. Financial and capital market information is pertinent to understanding factors affecting valuation of complex property. Gathering financial data to attempt to understand investor and corporate attitudes for capital return expectations giving considering return components such as current interest rates, capital debt structure, bond market rates and capital supply and demand trends. These financial factors result in overall return rates and capital structure for these companies and affects capitalization rates. The weighted average cost of capital is the most commonly used method of estimating capitalization rates for utility properties: Ibbotson's SBI Valuation Edition, Wall Street Journal, Mergent Bond Record, Moody's Corporate Bond Yield Averages, Value Line Investment Survey "Ratings and Reports". Industry specific information is also gathered from web sites, publication, periodicals and reference manuals. San Augustine CAD utilizes the weighed average cost of capital to estimate the capitalization rate for utility under the income approach.

VALUATION AND STATISTICAL ANALYSIS(Model Calibration)

APPROACHES TO VALUATION, RECONCILIATION

Valuation of tangible assets for utility companies relies primarily on indications of values based on the cost and income approaches to value under the unit value approach. This methodology involves developing and estimating market value considering the entirety of the company's

tangible assets and resolving an allocated value for that portion of specific tangible assets located in particular tax jurisdictions. The valuation opinion is based on three approach analysis utilized for the indicated unit appraisal of all company tangible assets, then an estimated allocation of unit value for only assets located in the district and particular jurisdictions. The methodology is approved and recommended by the Property Tax Division of the Comptroller's Office and is an accepted standard within the industry and appraisal community.

VALUE REVIEW PROCEDURES

Review of the valuation of utility property is based on verifying economic and financial factors utilized in the methodology as relevant to current capital markets and that these factors reflect current return expectations. Market sales of utility properties do occur and are a good source for comparison and review when the price of the tangible assets can be abstracted or allocated from the selling price. Typically, the sale of utility companies involve significant intangible property assets such as customer base, goodwill, favorable contracts, name recognition, etc. and the contributory value and allocation of these assets is subjective and unknown. In Texas, intangible property assets are exempt from taxation and must not be included on the appraisal roll as taxable property. Therefore, because of the lack of specific market information on sales of utility properties, appraised value is regularly compared to the valuation of similar property within the same set of property characteristics, business type and size. More of comparison for equity concerns on valuation rather than the full recognition of a market level certainty about appraisal level. Of course, the estimated value is based on recognized methodology for considering the valuation these tangible assets, but true market confirmation of these factors may not be possible due to minimal market knowledge and experience.

Ratio studies are also a method of review for relevance of appraisal valuation to market value. Again, in the absence of full disclosure of prices paid and without the abstraction of prices paid for the tangible asset components from recent utility property acquisitions or sales, market based analysis and review is not possible. Ratio studies for utility property must rely on a comparison of one appraisal opinion as the basis for the reasonable property valuation with the district's appraised value to determine the ratio for level and uniformity of appraisal. The PTD conducts the annual ratio study of selected utility properties to gauge the appraisal district's performance. The PTD utilizes the same valuation methodology to estimate appraisal valuation estimated by San Augustine CAD for these properties yield ratios. This ratio study of certain utility properties indicates the level and uniformity of appraisal for this category of property.

LIMITING CONDITIONS

The appraised value estimates provided by the district are subject to the following conditions:

- The appraisals were prepared exclusively for ad valorem tax purposes.
- The property characteristic data upon which the appraisals are based is assumed to be correct. Exterior inspections of the property appraised were performed as staff resources and time allowed. Some interior inspection of property appraised were performed at the request of the property owner and required by the district for clarification purposes and to correct property descriptions.
- Validation of sales transactions was attempted through questionnaires to buyer or seller, telephone survey and field review. In the absence of such confirmation, residential sales data obtained from vendors was considered reliable. Sales information is limited and homogeneous neighborhoods are rare.

SAN AUGUSTINE APPRAISAL DISTRICT**REINSPECTION ZONES FOR TAX YEAR 2023****ZONE #1 – SAN AUGUSTINE ISD**

FROM SHELBY COUNTY LINE EAST ON FM 711 TO HIGHWAY 96 SOUTH TO TRAFFIC CIRCLE, EAST ON HWY 21 TO COURTHOUSE

FROM COURTHOUSE SOUTH ON HWY 147 TO VERNADO CREEK BRIDGE

WEST ON BROADDUS ISD AND SAN AUGUSTINE ISD LINE TO CHIRENO ISD EAST BOUNDARY LINE

NORTH AROUND CHIRENO ISD LINE TO ATTOYAC RIVER

NORTH UP ATTOYAC RIVER TO SHELBY-SAN AUGUSTINE COUNTY LINE

EAST ON SHELBY-SAN AUGUSTINE COUNTY LINE TO FM 711

ZONE #1 – BROADDUS ISD

FROM ANGELINA COUNTY LINE NORTH ON FM 3173 TO FM 705

NORTH ON FM 705 THROUGH HWY 83 INTERSECTION TO HWY 103

EAST ON HWY 103 TO AYISH BAYOU(SAISD LINE)

SOUTH WITH AYISH BAYOU TO SOUTHERN MOST SOUTHWEST CORNER OF SAISD LINE

EAST WITH SAISD LINE TO SAN AUGUSTINE-SABINE COUNTY LINE

SOUTH OF SAN AUGUSTINE-SABINE COUNTY LINE TO NORTH EAST CORNER OF BROOKELAND ISD IN SAN AUGUSTINE COUNTY

AROUND THE BROOKELAND ISD BOUNDARY LINE TO SAN AUGUSTINE-JASPER COUNTY LINE

SAN AUGUSTINE APPRAISAL DISTRICT

TAX CALANDER - 2023

1-Jan	GENERAL APPRAISAL DATE
31-Jan	CERTIFICATION OF PRELIMINARY PROPERTY VALUE STUDY RESULTS
1-Feb	DEADLINE FOR CHIF APPRAISER TO PROVIDE NOTICE REGARDING THE AVAILABILITY OF AGREEMENT FORMS AUTHORIZING ELECTRONIC COMMUNICATIONS
13-Mar	DEADLIND TO FILE PROPERTY VALUE STUDY APPEAL
3-Apr	LAST DAY FOR CHIEF APPRAISER TO NOTIFY THE TAXING UNITS OF THE FORM IN WHICH THE APPRAISAL ROLL WILL BE PROVIDED
17-Apr	DEADLINE TO FILE BUSINESS PERSONAL PROPERTY RENDITION
1-May	LAST DAY FOR CHIEF APPRAISER TO CERTIFY ESTIMATE OF THE TAXABLE VALUES FOR COUNTIES, MUNICIPALITIES & SCHOOL DISTRICTS
MAY 1-15	PUBLISH PROPERTY TAX PROTEST AND APPEAL PROCEDURES NOTICE IN A LOCAL NEWSPAPER WITH GENERAL CIRCULATION
15-May	LAST DAY TO FILE PERSONAL PROPERTY RENDITIONS IF WRITTEN EXTENSION REQUIRED
1-Jun	LAST DAY TO FILE WRITTEN PROTEST OF APPRAISED VALUE
15-Jun	CHIEF APPRAISER TO SUBMIT PROPOSED BUDGET TO CAD BOARD AND TAXING UNITS
20-Jul	ARB APPROVE APPRAISAL RECORDS
26-Jul	CHIEF APPRAISER TO CERTIFY APPRAISAL ROLL TO ENTITIES
1-Aug	LAST DAY FOR TAXPAYER TO FILE SEPTEMBER 1 INVENTORY
15-Sep	LAST DAY FOR CAD BOARD TO ADOPT CAD BUDGET FOR 2024

SAN AUGUSTINE APPRAISAL DISTRICT**REINSPECTION ZONES FOR TAX YEAR 2023****ZONE #1 – SAN AUGUSTINE ISD**

FROM SHELBY COUNTY LINE EAST ON FM 711 TO HIGHWAY 96 SOUTH TO TRAFFIC CIRCLE, EAST ON HWY 21 TO COURTHOUSE

FROM COURTHOUSE SOUTH ON HWY 147 TO VERNADO CREEK BRIDGE

WEST ON BROADDUS ISD AND SAN AUGUSTINE ISD LINE TO CHIRENO ISD EAST BOUNDARY LINE

NORTH AROUND CHIRENO ISD LINE TO ATTOYAC RIVER

NORTH UP ATTOYAC RIVER TO SHELBY-SAN AUGUSTINE COUNTY LINE

EAST ON SHELBY-SAN AUGUSTINE COUNTY LINE TO FM 711

ZONE #1 – BROADDUS ISD

FROM ANGELINA COUNTY LINE NORTH ON FM 3173 TO FM 705

NORTH ON FM 705 THROUGH HWY 83 INTERSECTION TO HWY 103

EAST ON HWY 103 TO AYISH BAYOU(SAISD LINE)

SOUTH WITH AYISH BAYOU TO SOUTHERN MOST SOUTHWEST CORNER OF SAISD LINE

EAST WITH SAISD LINE TO SAN AUGUSTINE-SABINE COUNTY LINE

SOUTH OF SAN AUGUSTINE-SABINE COUNTY LINE TO NORTH EAST CORNER OF BROOKELAND ISD IN SAN AUGUSTINE COUNTY

AROUND THE BROOKELAND ISD BOUNDARY LINE TO SAN AUGUSTINE-JASPER COUNTY LINE

WEST ACROSS LOWER NORTH BOUNDARY OF BROADDUS ISD TO AYISH BAYOU

NORTH WITH AYISH BAYOU AND BROADDUS ISD TO COUNTY ROAD 328

WEST ON COUNTY ROAD 328 TO HWY 147

NORTH ON HWY 147 TO COURTHOUSE

ZONE #3 – BROADDUS ISD

STARTING AT ANGELINA COUNTY LINE SAM RAYBURN LAKE AND HWY 147, NORTH ON HWY 147 TO HWY 103

EAST ON HWY 103 TO AYISH BAYOU BRIDGE. AYISH BAYOU BEING SCHOOL DISTRICT LINE BETWEEN BROADDUS ISD AND SAN AUGUSTINE ISD

NORTH WITH SAN AUGUSTINE ISD WEST BOUNDARY LINE AND AYISH BAYOU TO COUNTY ROAD 328

WEST ON COUNTY ROAD 328 TO HWY 147

NORTH ON HWY 147 TO VERNADO CREEK NORTHWEST WITH CREEK WITH SAN AUGUSTINE ISD LINE TO CHRENO ISD LINE

CONTINUE WEST WITH CHIRENO ISD LINE TO ATTOYAC RIVER BOUNDARY BETWEEN SAN AUGUSTINE AND NACOGDOCHES COUNTIES

SOUTH WITH RIVER TO ANGELINA COUNTY LINE AND HWY 147 "STARTING POINT"

SAN AUGUSTINE APPRAISAL DISTRICT	
TAX CALENDAR -2024	
1-Jan	GENERAL APPRAISAL DATE
31-Jan	CERTIFICATION OF PRELIMINARY PROPERTY VALUE STUDY RESULTS
1-Feb	DEADLINE FOR CHIEF APPRAISER TO PROVIDE NOTICE REGARDING THE AVAILABILITY OF AGREEMENT FORMS AUTHORIZING ELECTRONIC COMMUNICATION
14-Mar	DEADLINE TO FILE PROPERTY VALUE STUDY APPEAL
1-Apr	LAST DAY FOR CHIEF APPRAISER TO NOTIFY THE TAXING UNITS OF THE FORM IN WHICH THE APPRAISAL ROLL WILL BE PROVIDED
15-Apr	DEADLINE TO FILE BUSINESS PERSONAL PROPERTY RENDITION
30-Apr	LAST DAY FOR CHIEF APPRAISER TO CERTIFY ESTIMATE OF THE TAXABLE VALUE FOR TAXING ENTITIES
MAY 1-15	PUBLISH NOTICE IN LOCAL NEWSPAPER WITH GENERAL CIRCULATION ABOUT TAXPAYER PROTEST PROCEDURES
15-May	LAST DAY TO FILE PERSONAL PROPERTY RENDITIONS IF WRITTEN EXTENSION GRANTED
1-Jun	LAST DAY TO FILE WRITTEN PROTEST OF APPRAISED VALUE
17-Jun	CHIEF APPRAISER TO SUBMIT PROPOSED BUDGET TO CAD BOARD AND TAXING UNITS
10-Jul	ARB TO APPROVE APPRAISAL RECORDS
25-Jul	CHIEF APPRAISER TO CERTIFY APPRAISAL ROLL TO ENTITIES
1-Aug	LAST DAY FOR TAXPAYER TO FILE SEPTEMBER 1 INVENTORY
16-Sep	LAST DAY FOR CAD BOARD TO ADOPT CAD BUDGET FOR 2025



S.B. 1652* BIENNIAL REAPPRAISAL PLAN

**FOR THE ANNUAL APPRAISAL FOR
AD VALOREM TAX PURPOSES OF
MINERAL, INDUSTRIAL, UTILITY AND
RELATED PERSONAL PROPERTY**

**For Tax Years:
2023 and 2024****

Originally Printed: July 21, 2022

***This biennial reappraisal plan is largely predicated on the Scope of Work Rule in the most recent version of Uniform Standards of Professional Appraisal Practice (USPAP) promulgated by The Appraisal Foundation's Appraisal Standards Board (ASB). On February 19, 2021, the ASB announced that the 2020-2021 edition of USPAP would be extended for use into 2022. Subsequently, this plan does not have a newer edition of USPAP to draw upon and therefore is substantially similar to the 2021-2022 biennial reappraisal plan.*

*Senate Bill 1652 passed by the Texas Legislature, 79th Regular Session in 2005, amending Section 6.05 of the Texas Property Tax Code, adding Subsection (i) as follows:

"To ensure adherence with generally accepted appraisal practices, the board of directors of an appraisal district shall develop biennially a written plan for the periodic reappraisal of all property within the boundaries of the district according to the requirements of Section 25.18 and shall hold a public hearing to consider the proposed plan. Not later than the 10th day before the date of the hearing, the secretary of the board shall deliver to the presiding officer of the governing body of each taxing unit participating in the district a written notice of the date, time, and place for the hearing. Not later than September 15 of each even-numbered year, the board shall complete its hearings, make any amendments, and by resolution finally approve the plan. Copies of the approved plan shall be distributed to the presiding officer of the governing body of each taxing unit participating in the district and to the comptroller within 60 days of the approval date."



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POLICY STATEMENT OF PRITCHARD & ABBOTT, INC., ON THE UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

Pritchard & Abbott, Inc., (P&A), a privately held company engaged primarily, but not wholly, in the ad valorem tax valuation industry endorses Uniform Standards of Professional Appraisal Practice (USPAP) as the basis for the production of sound appraisals. Insofar as the statutory requirement to appraise groups (or a “universe”) of real and personal property within an established period of time using standardized procedures—and subjecting the resulting appraisals to statistical measures—is the definition of mass appraisal, P&A subscribes to USPAP Standards 5 and 6 (Mass Appraisal, Development and Reporting) whenever applicable in the development and defense of values. When circumstances clearly dictate the use of single property appraisal procedures, P&A adheres to the spirit and intent of the remaining USPAP Standards within all appropriate, practical, and/or contractual limitations or specifications.

A biennial reappraisal plan is, at its core, a discussion of the CAD’s intended implementation of the Scope of Work Rule in USPAP. This plan provides general information about this rather comprehensive USPAP rule, as well as the specific steps P&A takes in the actual appraisal of various property types per our contractual obligations. This Biennial Reappraisal Plan should not be confused or conflated with an “appraisal manual” or other “how-to” guide which may or may not exist within P&A for any particular property type we appraise.

This reappraisal plan discusses a few other USPAP rules that interact with the Scope of Work Rule, such as the Ethics Rule, the Record Keeping Rule, and Jurisdictional Exception Rule. For further information regarding other sections of USPAP, including the Competency Rule, definitions, and appraisal reports, please reference P&A’s “USPAP report” which accompanies our appraisals and supporting documentation provided to clients per Property Tax Code, Sec. 25.01(c) at the completion of each tax year. ***An appraisal season thus begins with an appraisal plan (approved by the CAD’s Board of Directors) and ends with appraisal reports.*** Providing these reports is definitely part of the plan. Likewise, much of the verbiage in the “USPAP report” is a reiteration of the Biennial Reappraisal Plan.

USPAP defines “appraisal” as the act or process of developing an opinion of value or pertaining to appraising and related functions such as appraisal practice or appraisal services. Valuation services is defined as services pertaining to an aspect of property value, regardless of the type of service and whether it is performed by appraisers or by others. The USPAP definition of “appraiser” is one who is expected to perform valuation services competently and in a manner that is ***independent, impartial, and objective.*** USPAP Advisory Opinion 21: *USPAP Compliance* states that this expectation (by clients and intended users of appraisal reports) is the basis that creates an ethical obligation to comply with USPAP, even if not legally required. Advisory opinions do not establish new standards or interpret existing standards, but instead are issued to illustrate the applicability of appraisal standards in specific situations.

The majority of property types that P&A typically appraises for ad valorem tax purposes are categorized as unique, complex, and/or “special purpose” properties (mineral interests, industrial, utility, and related personal property). These categories of properties do not normally provide sufficient market data of reliable quality and/or quantity to support the rigorous use of all USPAP-prescribed mass appraisal development mandates (Standard 5: Mass Appraisal, Development), particularly with regards to some, but not all, of the *model calibration* and *statistical performance testing* confines. However, P&A does strive to employ all or most elements of mass appraisal techniques with regards to the *definition* and *identification of property characteristics* and *model specification* and application.

Per USPAP Advisory Opinion 32: *Ad Valorem Property Tax Appraisal and Mass Appraisal Assignments*, in the

interests of equity, the scope of work in mass appraisal assignments for ad valorem taxation can include consideration of appraisal level (the overall proximity between appraised values and actual prices) and the uniformity of property values (equity within groups of like properties). The appraiser is responsible for recognizing when the concepts of appraisal level and appraisal uniformity are necessary for credible assignment results in a mass appraisal assignment for ad valorem taxation.

Residential real estate property appraisers most frequently apply mass appraisal methods within the sales comparison (market) approach to value. Through the use of standardized data collection (i.e., actual market sales), specification and calibration of mass appraisal models, tables, and schedules are possible. Through ratio study analysis and other performance measures, a cumulative summary of valuation accuracy can thus be produced in order to calibrate the appraisal model(s). Where sufficient data of reliable quality exists, mass appraisal is also used for other types of real estate property such as farms, vacant lots, and some commercial uses (e.g., apartments, offices, and small retail).

Regarding mass appraisal reports due the client and other intended users per USPAP (Standard 6 (Mass Appraisal, Reporting), a written report of the mass appraisal as described in Standards 6-2 is not provided for each individual property. An individual property record or worksheet may describe the valuation of the specific property after the application of the mass appraisal model. To understand the individual property result developed in a mass appraisal requires the examination of all the information and analysis required by Standards 6-2.

P&A will clearly state or otherwise make known all extraordinary assumptions, hypothetical conditions, limitations imposed by assignment conditions, and/or jurisdictional exceptions in its appraisal reports as they are conveyed to our clients. ***Intended users of our reports are typically the client(s) for which we are under direct contract.*** Although taxpayers or their agents who own and/or represent the subject property being appraised often receive these reports either by law or as a courtesy of the client or P&A, this receipt does not mean these parties automatically become Intended Users as defined by USPAP. ***A party receiving a copy of a report in order to satisfy disclosure requirements does not become an intended user of the appraisal or mass appraisal unless the appraiser specifically identifies such party as an intended user.*** Potential other users include parties involved in adjudication of valuation disputes (review board members, lawyers, judges, etc.), governmental agencies which periodically review our appraisals for various statutory purposes (such as the Texas Comptroller's Office) and private parties who may obtain copies of our appraisals through Open Records Requests made to governmental agencies.

USPAP does not currently address communications of assignment results prior to completion of the assignment, thus such communications have no requirements other than to comply with the general requirements in the Ethics Rule, the Competency Rule, and the Jurisdictional Exception Rule. The client and all intended users should be aware that mass appraisals, as opposed to most "fee" appraisals, are somewhat inherently "limited" versus "complete" and that appraisal reports, unless otherwise contracted for by the client, will most often be of a "restricted" nature whereas explanations of appraisal methods and results are more concise versus lengthy in order to promote brevity, clarity, and transparency to the intended user(s).

Per USPAP, the appropriate reporting option and level of information in a report are dependant on the intended use and the intended users. Although the reporting verbiage in USPAP Standard 6 does not specifically offer or promulgate a "Restricted Appraisal Report" such as in Standard 2 (Real Property Appraisal, Reporting) and Standard 8 (Personal Property Appraisal, Reporting), it should be noted that: a) all mass appraisals and mass appraisal reports deal with real and personal property in some form or fashion; and b) P&A is a private consulting firm, a fact which may necessitate the withholding of certain data and/or appraisal models/techniques which are deemed confidential, privileged and/or proprietary in nature. The use of "limited" appraisals in conjunction with "restricted" reports in no way implies non-compliance with USPAP. ***The substantive content of a report***

determines its compliance.

P&A believes that, with its vast experience and expertise in these areas of appraisal, all concluded values and reports thereof are credible, competent, understandable, uniform and consistent; and most importantly for ad valorem tax purposes, accomplished in a cost-efficient and timely manner.

Per previous ASB comments under Standard 6-2(b) [*scope of work... special limiting conditions*]:

“Although appraisers in ad valorem taxation should not be held accountable for limitations beyond their control, they are required by this specific requirement to identify cost constraints and to take appropriate steps to secure sufficient funding to produce appraisals that comply with these standards. Expenditure levels for assessment administration are a function of a number of factors. Fiscal constraints may impact data completeness and accuracy, valuation methods, and valuation accuracy. Although appraisers should seek adequate funding and disclose the impact of fiscal constraints on the mass appraisal process, they are not responsible for constraints beyond their control.”

In any event, however, it is not P&A’s intent to allow constraints, fiscal or otherwise, to limit the scope of work to such a degree that the mass appraisal results provided to our clients are not credible within the context of the intended use(s) of the appraisal.

PREAMBLE

The purpose of USPAP is to establish requirements and conditions for ethical, thorough, and transparent property valuation services. Valuation services pertain to all aspects of property value and include services performed by appraisers and other professionals including attorneys, accountants, insurance estimators, auctioneers, or brokers. Valuation services include appraisal, appraisal review, and appraisal consulting. The primary intent of these Standards is to promote and maintain a high level of public trust in professional appraisal practice.

It is essential that professional appraisers develop and communicate their analyses, opinions, and conclusions to intended users of their services in a manner that is meaningful and not misleading. The importance of the role of the appraiser places ethical obligations upon those who serve in this capacity. These USPAP Standards reflect the current standards of the appraisal profession.

These Standards are for both appraisers and users of appraisal services. To maintain a high level of professional practice, appraisers observe these Standards. However, these Standards do not in themselves establish which individuals or assignments must comply. The Appraisal Foundation nor its Appraisal Standards Board is not a government entity with the power to make, judge, or enforce law. Compliance with USPAP is only required when either the service or the appraiser is obligated to comply by law or regulation, or by agreement with the client or intended users. When not obligated, individuals may still choose to comply.

USPAP addresses the ethical and performance obligations of appraisers through Definitions, Rules, Standards, Statements (if any), and Advisory Opinions. USPAP Standards deal with the procedures to be followed in performing an appraisal or appraisal review and the manner in which each is communicated. A brief description of the USPAP Standards are as follows:

- **Standards 1 and 2:** establish requirements for the development and communication of a real property appraisal.
- **Standards 3 and 4:** establishes requirements for the development and communication of an appraisal review.
- **Standards 5 and 6:** establishes requirements for the development and communication of a mass appraisal.
- **Standards 7 and 8:** establish requirements for the development and communication of a personal property appraisal.
- **Standards 9 and 10:** establish requirements for the development and communication of a business or intangible asset appraisal.

Section 23.01(b) [*Appraisals Generally*] of the Texas Property Tax Code states:

“The market value of property shall be determined by the application of generally accepted appraisal methods and techniques. If the Appraisal District determines the appraised value of a property using mass appraisal standards, the mass appraisal standards must comply with the Uniform Standards of Professional Appraisal Practice...” (underline added for emphasis)

Consequently, USPAP Standards 5 and 6 are assumed to be the applicable standard for ad valorem tax purposes in Texas, if mass appraisal practices are in fact being used to appraise the subject property. USPAP Advisory Opinion 32 suggests several USPAP standards other than Standards 5 or 6 can apply in ad valorem tax work. It appears that an appraiser engaged in ad valorem tax work in Texas is not specifically required by law to follow these USPAP standards if in fact mass appraisal practices have not been used to appraise the subject property. In this case it could be deemed appropriate to invoke the Jurisdictional Exception Rule which is applicable when

there is a contradiction between the requirements of USPAP and the law or regulation of a jurisdiction. Please see the P&A Policy Statement on USPAP as provided elsewhere in this report for a more detailed discussion regarding this matter.

ETHICS RULE

Because of the fiduciary responsibilities inherent in professional appraisal practice, the appraiser must observe the highest standards of professional ethics. This Ethics Rule is divided into three sections:

- Conduct;
- Management;
- Confidentiality.

This Rule emphasizes the personal obligations and responsibilities of the individual appraiser. However, it should be noted that groups and organizations *which are comprised of individual appraisers engaged in appraisal practice* effectively share the same ethical obligations. To the extent the group or organization does not follow USPAP Standards when legally required, individual appraisers should take steps that are appropriate under the circumstances to ensure compliance with USPAP.

Compliance with these Standards is required when either the service or the appraiser is obligated by law or regulation, or by agreement with the client or intended users, to comply. *Compliance is also required when an individual, by choice, represents that he or she is performing the service as an appraiser.*

An appraiser must not misrepresent his or her role when providing valuation services that are outside of appraisal practice.

Honesty, impartiality, and professional competency are required of all appraisers under USPAP Standards. To document recognition and acceptance of his or her USPAP-related responsibilities in communicating an appraisal or appraisal review completed under USPAP, an appraiser is required to certify compliance with these Standards.

CONDUCT

An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests.

An appraiser:

- must not perform an assignment with bias;
- must not advocate the cause or interest of any party or issue;
- *must not accept an assignment that includes the reporting of predetermined opinions and conclusions;*
- must not misrepresent his or her role when providing valuation services that are outside of appraisal practice;
- must not communicate assignment results with the intent to mislead or to defraud;
- must not use or communicate a report or assignment results known by the appraiser to be misleading or fraudulent;
- must not knowingly permit an employee or other person to communicate a report or assignment results that are misleading or fraudulent report;
- must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value;
- must not engage in criminal conduct;

- must not willfully or knowingly violate the requirements of the RECORD KEEPING RULE; and must not perform an assignment in a grossly negligent manner.

If known prior to accepting an assignment, and/or if discovered at any time during the assignment, an appraiser must disclose to the client, and in each subsequent report certification:

- any current or prospective interest in the subject property or parties involved; and
- any services regarding the subject property performed by the appraiser within the three year period immediately preceding acceptance of the assignment, as an appraiser or in any other capacity.

The appraiser can agree with the client to keep the mere occurrence of a prior appraisal assignment confidential. If an appraiser has agreed with the client not to disclose that he or she has appraised a property, the appraiser must decline all subsequent assignment that fall with the three year period. In assignments in which there is no report, only the initial disclosure to the client is required.

Presumably all parties in ad valorem tax appraisal will be aware of the ongoing yearly nature of the appraisal assignments performed by valuation consulting firms like Pritchard & Abbott, Inc.—i.e., it will not be confidential—so that this particular conduct instruction is more or less a moot point (regarding the three year period discussed) if the prior service is in fact the ad valorem tax appraisals performed in previous tax years.

MANAGEMENT

The payment of a fee, commission, or a thing of value by the appraiser in connection with the procurement of an assignment must be disclosed. This disclosure must appear in the certification and in any transmittal letter in which conclusions of value are stated; however, the disclosure of the amount paid is not required. Intra-company payments to employees of groups or organizations involved in appraisal practice for business development do not require disclosure.

It is unethical for an appraiser to accept compensation for performing an assignment when it is contingent upon the reporting of a *predetermined result, a direction in assignment results that favors the cause of the client, the amount of a value opinion, the attainment of a stipulated result*, or the occurrence of a subsequent event directly related to the appraiser's opinions and specific to the assignment's purpose.

Advertising for or *soliciting assignments in a manner that is false, misleading, or exaggerated* is unethical. Decisions regarding finder or referral fees, contingent compensation, and advertising may not be the responsibility of an individual appraiser, but for a particular assignment it is the responsibility of the individual appraiser to ascertain that there has been no breach of ethics, that the assignment consulting assignment has been prepared in accordance with USPAP Standards, and that the report can be properly certified when required by USPAP Standards 2-3, 4-3, 6-3, 8-3, or 10-3.

An appraiser must affix, or authorize the use of, his or her signature to certify recognition and acceptance of his or her USPAP responsibilities in an appraisal or appraisal review assignment. An appraiser may authorize the use of his or her signature only on an assignment-by-assignment basis.

In addition, an appraiser must not affix the signature of another appraiser without his or her consent. An appraiser must exercise due care to prevent unauthorized use of his or her signature. However, an appraiser exercising such care is not responsible for unauthorized use of his or her signature.

CONFIDENTIALITY

An appraiser must protect the confidential nature of the appraiser-property owner relationship.

An appraiser must act in good faith with regard to the legitimate interests of the client in the use of confidential information and in the communication of assignment results.

An appraiser must be aware of, and comply with, all confidentiality and privacy laws and regulations applicable in an assignment.

An appraiser must not disclose confidential factual data obtained from a property owner to anyone other than:

1. The client;
2. Parties specifically authorized by the client;
3. State appraiser regulatory agencies;
4. Third parties as may be authorized by due process of law; or
5. A duly authorized professional peer review committee except when such disclosure to a committee would violate applicable law or regulation.

An appraiser must take reasonable steps to safeguard access to confidential information and assignment results by unauthorized individuals, whether such information or results are in physical or electronic form. In addition, an appraiser must ensure that employees, coworkers, subcontractors, or others who may have access to confidential information or assignments results, are aware of the prohibitions on disclosure of such information or results.

It is unethical for a member of a duly authorized professional peer review committee to disclose confidential information presented to the committee.

When all confidential elements of confidential information are removed through redaction or the process of aggregation, client authorization is not required for the disclosure of the remaining information, as modified.

RECORD KEEPING RULE

An appraiser must prepare a workfile for each appraisal or appraisal review assignment. A workfile must be in existence prior to the issuance of any report or other communication of assignment results. A written summary of an oral report must be added to the workfile within a reasonable time after the issuance of the oral report.

The workfile must include the name of the client and the identity, by name or type, of any other intended users, and true copies of all written reports, documented on any type of media. (A true copy is a replica of the report transmitted to the client. A photocopy or an electronic copy of the entire report transmitted to the client satisfies the requirement of a true copy.) A workfile must contain summaries of all oral reports or testimony, or a transcript of testimony, including the appraiser's signed and dated certification; and all other data, information, and documentation necessary to support the appraiser's opinions and conclusions and to show compliance with USPAP, or references to the location(s) of such other data, information, and documentation.

A workfile in support of a Restricted Appraisal Report or an oral appraisal report must be sufficient for the appraiser to produce an Appraisal Report. A workfile in support of an oral appraisal review report must be sufficient for the appraiser to produce an Appraisal Review Report.

An appraiser must retain the workfile for a period of at least *five years after preparation* or at least two years after final disposition of any judicial proceeding in which the appraiser provided testimony related to the assignment, whichever period expires last.

An appraiser must have custody of the workfile, or make appropriate workfile retention, access, and retrieval arrangements with the party having custody of the workfile. This includes ensuring that a workfile is stored in a medium that is retrievable by the appraiser throughout the prescribed record retention period. An appraiser having custody of a workfile must allow other appraisers with workfile obligations related to an assignment appropriate access and retrieval for the purpose of:

- submission to state appraiser regulatory agencies;
- compliance with due process of law;
- submission to a duly authorized professional peer review committee; or
- compliance with retrieval arrangements.

A workfile must be made available by the appraiser when required by a state appraiser regulatory agency or due process of law.

An appraiser who willfully or knowingly fails to comply with the obligations of this Record Keeping Rule is in violation of the Ethics Rule.

SCOPE OF WORK RULE

For each appraisal or appraisal review assignment, an appraiser must:

1. Identify the problem to be solved;
2. Determine and perform the scope of work necessary to develop credible assignment results; and
3. Disclose the scope of work in the report.

An appraiser must properly identify the problem to be solved in order to determine the appropriate scope of work. The appraiser must be prepared to demonstrate that the scope of work is sufficient to produce credible assignment results.

Scope of work includes, but is not limited to:

- the extent to which the property is identified;
- the extent to which tangible property is inspected;
- the type and extent of data researched; and
- the type and extent of analyses applied to arrive at opinions or conclusions.

Appraisers have broad flexibility and significant responsibility in determining the appropriate scope of work for an appraisal or appraisal review assignment. Credible assignment results require support by relevant evidence and logic. *The credibility of assignment results is always measured in the context of the intended use.*

PROBLEM IDENTIFICATION

An appraiser must gather and analyze information about those assignment elements that are necessary to properly identify the appraisal, appraisal review or appraisal consulting problem to be solved. The assignment elements necessary for problem identification are addressed in the Standard 6-2:

- client and any other intended users;
- intended use of the appraiser's opinions and conclusions;
- type and definition of value;
- effective date of the appraiser's opinions and conclusions;
- subject of the assignment and its relevant characteristics; and
- assignment conditions.

This information provides the appraiser with the basis for determining the type and extent of research and analyses to include in the development of an appraisal. Similar information is necessary for problem identification in appraisal review and appraisal consulting assignments. Assignment conditions include:

- assumptions;
- extraordinary assumptions;
- hypothetical conditions;
- laws and regulations;
- jurisdictional exceptions; and
- other conditions that affect the scope of work.

SCOPE OF WORK ACCEPTABILITY

The scope of work must include the research and analyses that are necessary to develop credible assignment results. The scope of work is acceptable when it meets or exceeds:

- the expectations of parties who are regularly intended users for similar assignments; and
- what an appraiser's peers' actions would be in performing the same or a similar assignment.

Determining the scope of work is an ongoing process in an assignment. Information or conditions discovered during the course of an assignment might cause the appraiser to reconsider the scope of work. An appraiser must be prepared to support the decision to exclude any investigation, information, method, or technique that would appear relevant to the client, another intended user, or the appraiser's peers.

An appraiser must not allow assignment conditions to limit the scope of work to such a degree that the assignment results are not credible in the context of the intended use. In addition, the appraiser must not allow the intended use of an assignment or a client's objectives to cause the assignment results to be biased.

DISCLOSURE OBLIGATIONS

The report must contain sufficient information to allow intended the client and other intended users to understand the scope of work performed. Proper disclosure is required because clients and other intended users may rely on the assignment results. Sufficient information includes disclosure of research and analyses performed or not performed. ***The information disclosed must be appropriate for the intended use of the assignment results.***

Sufficient information includes disclosure of research and analyses performed and might also include disclosure of research and analyses not performed. ***The appraiser has broad flexibility and significant responsibility in the level of detail and manner of disclosing the scope of work in the appraisal report or appraisal review report.*** The appraiser may, but is not required to, consolidate the disclosure in a specific section or sections of the report, or use a particular label, heading or subheading. An appraiser may choose to disclose the scope of work as necessary throughout the report.

JURISDICTIONAL EXCEPTION RULE

If any applicable law or regulation precludes compliance with any part of USPAP, only that part of USPAP becomes void for that assignment. When compliance with USPAP is required by federal law or regulation, no part of USPAP can be voided by a law or regulation of a state or local jurisdiction. ***When an appraiser properly follows this Rule in disregarding a part of USPAP, there is no violation of USPAP.***

In an assignment involving a jurisdictional exception, an appraiser must:

- identify the law or regulation that precludes compliance with USPAP;
- comply with that law or regulation;
- clearly and conspicuously disclose in the report the part of USPAP that is voided by that law or regulation; and
- cite in the report the law or regulation requiring this exception to USPAP compliance.

The purpose of the Jurisdictional Exception Rule is strictly limited to providing a saving or severability clause intended to preserve the balance of USPAP if one or more of its parts are determined as contrary to law or public policy of a jurisdiction. By logical extension, there can be no violation of USPAP by an appraiser who disregards, with proper disclosure, only the part or parts of USPAP that are void and of no force and effect in a particular assignment by operation of legal authority.

It is misleading for an appraiser to disregard a part or parts of USPAP as void and of no force and effect in a particular assignment without identifying the part or parts disregarded and the legal authority justifying this action in the appraiser's report.

"Law" includes constitutions, legislative and court-made law, and administrative rules (such as from the Office of the Texas Comptroller of Public Accounts) and ordinances. "Regulations" include rules or orders having legal force, issued by an administrative agency. ***Instructions from a client or attorney do not establish a jurisdictional exception.***

A jurisdictional exception prevalent in Texas is that appraisers are seeking to establish "fair market value" as defined by the Texas Property Tax Code instead of "market value" as found in the USPAP definitions section.

USPAP STANDARDS 5 AND 6: MASS APPRAISAL, DEVELOPMENT AND REPORTING (General Discussion)

In developing a mass appraisal, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques necessary to produce and communicate credible mass appraisals.

Standards 5 and 6 apply to all mass appraisals of real and personal property regardless of the purpose or use of such appraisals. It is directed toward the substantive aspects of developing and communicating competent analyses, opinions, and conclusions in the mass appraisal of properties, whether real property or personal property. Standard 5 is directed toward the substantive aspects of developing credible analyses, opinions, and conclusions in the mass appraisal of properties, while Standard 6 addresses the content and level of information required in a report that communicates the results of a mass appraisal. The reporting and jurisdictional exceptions applicable to public mass appraisals prepared for purposes of ad valorem taxation do not apply to mass appraisals prepared for other purposes.

A mass appraisal includes:

- identifying properties to be appraised;
- defining market areas of consistent behavior that applies to properties;
- identifying characteristics (supply and demand) that affect the creation of value in that market area;
- developing (specifying) a model structure that reflects the relationship among the characteristics affecting value in the market area;
- calibrating the model structure to determine the contribution of the individual characteristics affecting value;
- applying the conclusions reflected in the model to the characteristics of the properties being appraised; and
- reviewing the mass appraisal results.

The Jurisdictional Exception Rule may apply to several sections of Standards 5 and 6 because ad valorem tax administration is subject to various state, county, and municipal laws.

As previously stated in the P&A Policy Statement (page 2), it may not be possible or practicable for all the mass appraisal attributes listed above to be rigorously applied to the many types of complex and/or unique properties that P&A typically appraises. Often there are contractual limitations on the scope of work needed or required. More prevalently, these types of properties do not normally provide a reliable database of market transactions (or details of transactions) necessary for statistically supportable calibration of appraisal models and review of appraisal results. Generally these two functions are effectively accomplished through annual extended review meetings with taxpayers (and clients) who provide data, sometimes confidentially, that allows for appraisal models to be adjusted where necessary. Nevertheless, and notwithstanding whether P&A implicitly or explicitly employs or reports all attributes listed above, in all cases P&A at the minimum employs tenants of “generally accepted appraisal methods” which are the genesis of USPAP Standards.

Per USPAP guidelines, P&A will make known all departures and jurisdictional exceptions when invoked (if an appraisal method or specific requirement is applicable but not necessary to attain credible results in a particular assignment).

The various sections of Standard 5 (development of mass appraisal) and Standard 6 (communication of the mass appraisal results) are briefly summarized below:

- **Standard 5-1:** Establishes the appraiser's technical and ethical framework. Specifically, appraisers must recognize and use established principles, methods and techniques of appraisal in a careful manner while not committing substantial errors of fact or negligence that would materially affect the appraisal results and not give a credible estimate of fair market value. To this end appraisers must continuously improve his or her skills to maintain proficiency and keep abreast of any new developments in the real and personal property appraisal profession. This Standards does not imply that competence requires perfection, as perfection is impossible to attain. Instead, it requires appraisers to employ every reasonable effort with regards to due diligence and due care.
- **Standard 5-2:** Defines the introductory framework requirements of developing a mass appraisal, focusing on the identification and/or definition of: client(s), intended users, effective date, appraisal perspective, scope of work, extraordinary assumptions, hypothetical conditions, the type and definition of value being developed (typically "fair market value" for ad valorem tax purposes), characteristics of the property being appraised in relation to the type and definition of value and intended use, the characteristics of the property's market, the property's real or personal attributes, fractional interest applicability, highest and best use analysis along with other land-related considerations, and any other economic considerations relevant to the property.
- **Standard 5-3:** Defines requirements for developing and specifying appropriate mass appraisal data and elements applicable for real and personal property. For real property, the data and elements include: existing land use regulations, reasonably probable modification of such regulations, economic supply and demand, the physical adaptability of the real estate, neighborhood trends, and highest and best use analysis. For personal property, the relevant data and elements include: identification of industry trends, trade level, highest and best use, and recognition of the appropriate market consistent with the type and definition of value.
- **Standard 5-4:** Further defines requirements for developing mass appraisal models, focusing on development of standardized data collection forms, procedures, and training materials that are used uniformly on the universe of properties under consideration. This rule specifies that appraisers employ recognized techniques for specifying and calibrating mass appraisal models. Model specification is the formal development of a model in a statement or mathematical equation, including all due considerations for physical, functional, and external market factors as they may affect the appraisal. These models must accurately represent the relationship between property value and supply and demand factors, as represented by quantitative and qualitative property characteristics. Models must be calibrated using recognized techniques, including, but not limited to, multiple linear regression, nonlinear regression, and adaptive estimation. Models may be specified incorporating the income, market, and/or cost approaches to value and may be tabular, mathematical, linear, nonlinear, or any other structure suitable for representing the observable property characteristics such as adaptive estimation. Model calibration refers to the process of analyzing sets of property and market data to determine the specific parameters of a model.
- **Standard 5-5:** Defines requirements for collection of sufficient factual data, in both qualitative and quantitative terms, necessary to produce credible appraisal results. The property characteristics collected must be contemporaneous with the effective date of the appraisal. The data collection program should incorporate a quality control procedure, including checks and audits of the data to ensure current and consistent records. This rule also calls for calls for an appraiser, in developing income and expense statements and cashflow projections, to weigh historical information and trends, current market factors affecting such trends, and reasonably anticipated events, such as competition from developments either planned or under construction. Terms and conditions of any leases should be analyzed, as well as the need for and extent of any physical inspection of the properties being appraised.

- **Standard 5-6:** Defines requirements for application of a calibrated model to the property being appraised. This rule calls for: the appraiser to recognize methods or techniques based on the cost, market, and income approaches for improved parcels; the appraiser to value sites by recognized methods or techniques such as allocation method, abstraction method, capitalization of ground rent, and land residual; the appraiser to develop value of leased fee or leasehold estates with consideration for terms and conditions of existing leases, and, when applicable by law, as if held in fee simple whereas market rents are substituted for actual contract rents; the appraiser to analyze the effect on value, if any, of the assemblage of the various parcels, divided interests, or component parts of a property; the appraiser to analyze anticipated public or private improvements located on or off the site, and analyze the effect on value, if any, of such anticipated improvements to the extent they are reflected in market actions.
- **Standard 5-7:** Defines the reconciliation process of a mass appraisal. Specifically, appraisers must analyze the results and/or applicability of the various approaches used while ensuring that, on an overall basis, standards of reasonableness and accuracy are maintained with the appraisal model selected (underline added for emphasis). It is implicit in mass appraisal that, even when properly specified and calibrated models are used, some individual value conclusions will not meet standards of reasonableness, consistency, and accuracy. Appraisers have a professional responsibility to ensure that, on an overall basis, models produce value conclusions that meet attainable standards of accuracy.
- **Standard 6-1:** Defines general requirements of a mass appraisal written report by addressing the level of information required that will allow the report to be non-misleading, clearly understood, and sufficiently qualified with any assumptions and conditions (elements of which are further detailed in the next three sections of this report that discuss P&A appraisal procedures with regards to specific categories of property).
- **Standard 6-2:** Defines specific content required to be included in a mass appraisal written report.
- **Standard 6-3:** Defines the certification of the mass appraisal written report.

The following sections of this report discuss in more detail the various elements of the development of P&A's mass appraisals and associated written reports as required by USPAP Standards 5 and 6, with regards to P&A appraisal of Mineral Interests, Industrial, Utility, Related Personal Property, and Real Estate.

USPAP STANDARDS 5, 6-1, 6-2: MASS APPRAISAL OF MINERAL INTERESTS

INTRODUCTION

Definition of Appraisal Responsibility (Scope of Effort): The Mineral Valuation Department of Pritchard & Abbott, Inc. ("P&A" hereinafter), is responsible for developing credible values for mineral interests (full or fractional percentage ownership of oil and gas leasehold interest, the amount and type of which are legally and/or contractually created and specified through deeds and leases, et.al.) associated with producing (or capable of producing) leases. Mineral interests are typically considered real property because of their derivation from the bundle of rights associated with original fee simple ownership of land. Typically all the mineral interests that apply to a single producing lease are consolidated by type (working vs. royalty) with each type then appraised for full value which is then distributed to the various fractional decimal interest owners prorata to their individual type and percentage amount.

P&A's typical client is a governmental entity charged with appraisal responsibility for ad valorem tax purposes, although other types of clients (private businesses, individuals, etc.) occasionally contract for appraisal services which are strictly for various non-ad valorem tax purposes so that no conflicts of interest are created with P&A's core ad valorem tax work.

P&A hereby makes the **assumption** that, in all appraisal assignments performed for governmental entities in satisfaction of contractual obligations related to ad valorem tax, the client does not wish to or cannot legally request the appraisal report not identify the client.

Intended users of our reports are typically the client(s) for which we are under direct contract. Although taxpayers or their agents who own and/or represent the subject property being appraised often receive these reports either by law or as a courtesy of the client or P&A, this receipt does not mean these parties automatically become Intended Users as defined by USPAP. **A party receiving a copy of a report in order to satisfy disclosure requirements does not become an intended user of the appraisal or mass appraisal unless the appraiser specifically identifies such party as an intended user.** Potential other users include parties involved in adjudication of valuation disputes (review board members, lawyers, judges, etc.), governmental agencies which periodically review our appraisals for various statutory purposes (such as the Texas Comptroller's Office) and private parties who may obtain copies of our appraisals through Open Records Requests made to governmental agencies.

This section of P&A's USPAP report is not applicable to any mineral or mineral interest property that an appraisal district appraises outside of P&A's appraisal services, in which case the appraisal district's overall USPAP report should be referenced.

P&A makes the **Extraordinary Assumption** that all properties appraised for ad valorem tax purposes are marketable whereas ownership and title to property are free of encumbrances and other restrictions that would affect fair market value to an extent not obvious to the general marketplace. If and/or when we are made aware of any encumbrances, etc., these would be taken into account in our appraisal in which case the extraordinary assumption stated above would be revoked.

P&A is typically under contract to determine current market value or "fair market value" of said mineral interests. Fair market value is typically described as the price at which a property would sell for if:

- exposed in the open market with a reasonable time for the seller to find a purchaser;

- both the buyer and seller know of all the uses and purposes to which the property is, or can be, adapted and of the enforceable restrictions on its use; and
- both the buyer and seller seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other. [Exigencies are pressing or urgent conditions that leave one party at a disadvantage to the other.]

For ad valorem tax purposes the effective date is usually legislatively specified by the particular State in which we are working - for example, in Texas the lien date is January 1 per the Texas Property Tax Code. For ad valorem tax purposes, the date of the appraisals and reports are typically several months past the effective date, thereby leaving open the possibility that a retrospective approach is appropriate under limited and prescribed circumstances (information after the effective date being applicable only if it confirms a trend or other appraisal condition that existed and was generally known as of the effective date).

P&A believes this section of this report, in conjunction with any attached or separately provided P&A-generated report(s), meets the USPAP definition of “typical practice”; i.e., it satisfies a level of work that is consistent with:

- the expectations of participants in the market for the same or similar appraisal services; and
- what P&A’s peers’ actions would be in performing the same or similar appraisal services in compliance with USPAP.

Legal and Statutory Requirements: In Texas, the provisions of the Texas Property Tax Code and other relevant legislative measures involving appraisal administration and procedures control the work of P&A as an extension of the Appraisal District. Other states in which P&A is employed will have similar controlling legislation, regulatory agencies, and governmental entities. P&A is responsible for appraising property on the basis of its fair market value as of the stated effective date (January 1 in Texas) for ad valorem tax purposes for each taxing unit that imposes ad valorem taxes on property in the contracted Appraisal District. All mineral properties (interests) are reappraised annually. The definition of Fair Market Value is provided and promulgated for use in ad valorem tax work in Texas by the Texas Property Tax Code, and therefore as a **Jurisdictional Exception** supercedes the definition of “market value” as found in USPAP definitions.

NOTE: IN TEXAS, P&A BELIEVES THE PROPERTY BEING APPRAISED AND PLACED ON THE TAX ROLL IS THE INTEREST AND NOT THE OIL OR GAS MINERAL ITSELF, PER PROPERTY TAX CODE SECTION 1.04(2)(F). WHILE OIL AND GAS RESERVES CERTAINLY HAVE VALUE, THE FACT IS THAT IT IS THE INTERESTS IN THESE MINERALS THAT ARE BOUGHT AND SOLD, NOT THE MINERALS THEMSELVES. THE SALE OF MINERALS AS THEY ARE EXTRACTED FROM THE SUBSURFACE OF THE LAND WHERE THEY RESIDE AS MINERALS IN PLACE “MONETIZES” THE INTEREST AND THUS GIVES THE INTEREST ITS VALUE. WHENEVER P&A REFERS TO “MINERAL PROPERTIES” IN THIS REPORT OR IN ANY OTHER SETTING, IT IS THE MINERAL INTEREST, AND NOT THE MINERAL ITSELF, THAT IS THE SUBJECT OF THE REFERENCE.

Administrative Requirements: P&A endorses the principals of the International Association of Assessing Officers (IAAO) regarding its appraisal practices and procedures. P&A also endorses, and follows when possible, the standards promulgated by the Appraisal Foundation known as the Uniform Standards of Professional Appraisal Practice (USPAP). In all cases where IAAO and/or USPAP requirements cannot be satisfied for reasons of practicality or irrelevancy, P&A subscribes to “generally accepted appraisal methods and techniques” so that its value conclusions are credible and defensible. P&A submits annual or biannual contract bids to the Appraisal District Board of Directors or the Office of the Chief Appraiser and is bound to produce appraisal estimates on mineral properties within the cost constraints of said bid. Any appraisal practices and procedures followed by P&A not explicitly defined or allowed through IAAO or USPAP requirements are specified by the Texas Property Tax Code or at the specific request or direction of the Office of the Chief Appraiser.

Appraisal Resources

Personnel: The Mineral Valuation Division staff consists of competent Petroleum Engineers, Geologists, and Appraisers. All personnel are Registered Professional Appraisers with the State of Texas, or are progressing towards this designation within the allowable time frames prescribed by the Texas Department of Licensing and Regulation (TDLR) and/or other licensing and regulatory agencies as applicable.

Data: For each mineral property a common set of data characteristics (i.e. historical production, price and expense data) is collected from various sources and entered into P&A's mainframe computer system. Historical production data and price data is available through state agencies (Texas Railroad Commission, Texas Comptroller, et al.) or private firms who gather, format and repackage such data for sale commercially. Each property's characteristic data drives the computer-assisted mass appraisal approach to valuation.

Information Systems: The mainframe systems are augmented by the databases that serve the various in-house and 3rd-party applications on desktop personal computers. In addition, communication and dissemination of appraisals and other information is available to the taxpayer and client through electronic means including internet and other phone-line connectivity. The appraiser supervising any given contract fields many of the public's questions or redirects them to the proper department personnel.

VALUATION APPROACH (MODEL SPECIFICATION)

Concepts of Value: The valuation of oil and gas properties is not an exact science, and exact accuracy is not attainable due to many factors. Nevertheless, standards of reasonable performance do exist, and there are usually reliable means of measuring and applying these standards.

Petroleum properties are subject to depletion, and capital investment must be returned before economic exhaustion of the resource (mineral reserves). The examination of petroleum properties involves understanding the geology of the resource (producing and non-producing), type of reservoir energy, the methods of secondary and enhanced recovery (if applicable), and the surface treatment and marketability of the produced petroleum product(s).

Evaluation of mineral properties is a continuous process; the value as of the lien date merely represents a "snapshot" in time. The potential value of mineral interests derived from sale of minerals to be extracted from the ground change with mineral price fluctuation in the open market, changes in extraction technology, costs of extraction, and other variables such as the value of money.

Approaches to Value for Petroleum Property

Cost Approach: The use of cost data in an appraisal for market value is based upon the economic principle of substitution. The cost approach typically derives value by a model that begins with replacement cost new (RCN) and then applies depreciation in all its forms (physical depreciation, functional and economic obsolescence). This method is difficult to apply to oil and gas properties since lease acquisition and development may bear no relation to present worth. Though very useful in the appraisal of many other types of properties, the cost approach is not readily applicable to mineral properties. [Keep in mind that the property actually being appraised is the mineral interest and not the oil and gas reserves themselves. Trying to apply the cost approach to evaluation of mineral interests is like trying to apply the cost approach to land; it is a moot point because both are real properties that are inherently non-replaceable.] **As a general rule, and for the reasons stated above, Pritchard & Abbott, Inc., does not employ the cost approach in the appraisal of mineral interests.**

Market Approach: This approach may be defined as one which uses data available from actual transactions recorded in the market place itself; i.e., sales of comparable properties from which a comparison to the subject property can be made. Ideally, this approach's main advantage involves not only an opinion but an opinion supported by the actual spending of money. Although at first glance this approach seems to more closely incorporate the aspects of fair market value per its classical definition, there are two factors that severely limit the usefulness of the market approach for appraising oil and gas properties. First, oil and gas property sales data is seldom disclosed (in non-disclosure states such as Texas); consequently there is usually a severe lack of market data sufficient for meaningful statistical analysis. Second, all conditions of each sale must be known and carefully investigated to be sure one does have a comparative indicator of value per fair market value prerequisites.

Many times when these properties do change hands, it is generally through company mergers and acquisitions where other assets in addition to oil and gas reserves are involved; this further complicates the analysis whereby a total purchase price must be allocated to the individual components - a speculative and somewhat arbitrary task at best. In the case of oil and gas properties, a scarcity of sales requires that every evidence of market data be investigated and analyzed. Factors relative to the sale of oil and gas properties are:

- current production and estimated declines forecast by the buyer;
- estimated probable and potential reserves;
- general lease and legal information which defines privileges or limitation of the equity sold;
- undeveloped potential such as secondary recovery prospects;
- proximity to other production already operated by the purchaser;
- contingencies and other cash equivalents; and
- other factors such as size of property, gravity of oil, etc.

In the event that all these factors are available for analysis, the consensus effort would be tantamount to performing an income approach to value (or trying to duplicate the buyer's income approach to value), thereby making the market approach somewhat moot in its applicability. **As a general rule, and for the reasons stated above, Pritchard & Abbott, Inc., rarely employs a rigorous application of the market approach in the appraisal of mineral interests.**

Income Approach: This approach to value most readily yields itself to the appraisal of mineral interests. Data is readily available whereby a model can be created that reasonably estimates a future income stream to the property. This future income may then be converted (discounted) into an estimate of current value. Many refer to this as a capitalization method, because capitalization is the process of converting an income stream into a capital sum (value). As with any method, the final value is no better than the reliability of the input data. The underlying assumption is that people purchase the property for the future income the property will yield. If the land or improvements are of any residual value after the cessation of oil and gas production, that value should also be included (if those components are also being appraised).

The relevant income that should be used is the expected future net income. Assumptions of this method are:

- Past income and expenses are not a consideration, except insofar as they may be a guide to estimating future net income.
- That the producing life as well as the reserves (quantity of the minerals) are estimated for the property.
- Future income is less valuable than current income, and so future net income must be discounted to make it equivalent to the present income. This discount factor reflects the premium of present money over future money, i.e., interest rate, liquidity, investment management, and risk.

As a general rule, and for the reasons stated above, Pritchard & Abbott, Inc., relies predominantly on the income approach to value in the appraisal of mineral interests.

DATA COLLECTION/VALIDATION

Sources of Data: The main source of P&A's property data is data from the Railroad Commission of Texas as reported by operators. As a monthly activity, the data processing department receives data tapes or electronic files which have updated and new well and production data. Other discovery tools are fieldwork by appraisers, financial data from operators, information from chief appraisers, tax assessors, trade publications and city and local newspapers. Other members of the public often provide P&A information regarding new wells and other useful facts related to property valuation.

Another crucial set of data to obtain is the ownership of these mineral interests. Typically a mineral lease is fractionated and executed with several if not many owners. This information is typically requested (under a promise of confidentiality concerning owners' personal information) from pipeline purchasers and/or other entities (such as operators) who have the responsibility of disbursing the income to the mineral interest owners. Another source of ownership information is through the taxpayers themselves who file deeds of ownership transfer and/or correspond with P&A or the appraisal district directly.

Data Collection Procedures: Electronic and field data collection requires organization, planning and supervision of the appraisal staff. Data collection procedures for mineral properties are generally accomplished globally by the company; i.e., production and price data for the entire state is downloaded at one time into the computer system. Appraisers also individually gather and record specific and particular information to the appraisal file records, which serves as the basis for the valuation of mineral properties. P&A is divided into four district offices covering different geographic areas. Each office has a district manager, appraisal and ownership maintenance staff, and clerical staff as appropriate. While overall standards of performance are established and upheld for the various district offices, quality of data is emphasized as the goal and responsibility of each appraiser.

VALUATION ANALYSIS (MODEL CALIBRATION)

Appropriate revisions and/or enhancements of schedules or discounted cash flow software are annually made and then tested prior to the appraisals being performed. Calibration typically involves performing multiple discounted cash flow tests for leases with varying parameter input to check the correlation and relationship of such indicators as: Dollars of Value Per Barrel of Reserves; Dollars of Value Per Daily Average Barrel Produced; Dollars of Expense Per Daily Average Barrel Produced; Years Payout of Purchase Price (Fair Market Value). In a more classical calibration procedure, the validity of values by P&A's income approach to value is tested against actual market transactions, if and when these transactions and verifiable details of these transactions are disclosed to P&A. Of course these transactions must be analyzed for meeting all requisites of fair market value definition. Any conclusions of this analysis are then compared to industry benchmarks for reasonableness before being incorporated into the calibration procedure.

INDIVIDUAL VALUE REVIEW PROCEDURES

Individual property values are reviewed several times in the appraisal process. P&A's discounted cashflow software dynamically generates various benchmark indicators that the appraiser reviews concurrent with the value being generated. These benchmarks often prompt the appraiser to reevaluate some or all of the parameters of data

entry so as to arrive at a value more indicative of industry standards. Examples of indicators are dollars of value per barrel of oil reserve, years payout, etc. In addition to appraiser review, taxpayers are afforded the opportunity to review the appraised values, either before or after Notices of Appraised Value are prepared. Operators routinely meet with P&A's appraisers to review parameters and to provide data not readily available to P&A through public or commercial sources, such as individual lease operating expense and reserve figures. And of course, all property values are subject to review through normal protest and Appraisal Review Board procedures, with P&A acting as an extension of the Office of the Chief Appraiser.

PERFORMANCE TESTS

An independent test of the appraisal performance of properties appraised by P&A is conducted by the State of Texas Comptroller's Office through the annual Property Value Study for school funding purposes. This study determines the degree of uniformity and the median level of appraisal for mineral properties. School jurisdictions are given an opportunity to appeal any preliminary findings. After the appeal process is resolved, the Comptroller publishes a report of the findings of the study, including in the report the median level of appraisal, the coefficient of dispersion around the median level of appraisal and any other standard statistical measures that the Comptroller considers appropriate.

USPAP STANDARDS 5, 6-1, 6-2: MASS APPRAISAL OF INDUSTRIAL, UTILITY AND RELATED PERSONAL PROPERTY

INTRODUCTION

Definition of Appraisal Responsibility (Scope of Effort): The Engineering Services Department of Pritchard & Abbott, Inc. (P&A) is responsible for developing fair and uniform market values for industrial, utility and personal properties.

P&A's typical client is a governmental entity charged with appraisal responsibility for ad valorem tax purposes, although other types of clients (private businesses, individuals, etc.) occasionally contract for appraisal services which are strictly for various non-ad valorem tax purposes so that no conflicts of interest are created with P&A's core ad valorem tax work.

P&A hereby makes the **assumption** that, in all appraisal assignments performed for governmental entities in satisfaction of contractual obligations related to ad valorem tax, the client does not wish to or cannot legally request the appraisal report not identify the client.

Intended users of our reports are typically the client(s) for which we are under direct contract. Although taxpayers or their agents who own and/or represent the subject property being appraised often receive these reports either by law or as a courtesy of the client or P&A, this receipt does not mean these parties automatically become Intended Users as defined by USPAP. **A party receiving a copy of a report in order to satisfy disclosure requirements does not become an intended user of the appraisal or mass appraisal unless the appraiser specifically identifies such party as an intended user.** Potential other users include parties involved in adjudication of valuation disputes (review board members, lawyers, judges, etc.), governmental agencies which periodically review our appraisals for various statutory purposes (such as the Texas Comptroller's Office) and private parties who may obtain copies of our appraisals through Open Records Requests made to governmental agencies.

This section of P&A's USPAP report is not applicable to any Industrial, Utility, or related Personal Property that an appraisal district appraises outside of P&A's appraisal services, in which case the appraisal district's overall USPAP report should be referenced.

P&A makes the **Extraordinary Assumption** that all properties appraised for ad valorem tax purposes are marketable whereas ownership and title to property are free of encumbrances and other restrictions that would affect fair market value to an extent not obvious to the general marketplace. If and/or when we are made aware of any encumbrances, etc., these would be taken into account in our appraisal in which case the extraordinary assumption stated above would be revoked.

P&A is typically under contract to determine current market value or "fair market value" of said industrial, utility, and related personal property. Fair market value is typically described as the price at which a property would sell for if:

- exposed in the open market with a reasonable time for the seller to find a purchaser;
- both the buyer and seller know of all the uses and purposes to which the property is, or can be, adapted and of the enforceable restrictions on its use; and

- both the buyer and seller seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other. [Exigencies are pressing or urgent conditions that leave one party at a disadvantage to the other.]

For ad valorem tax purposes the effective date is usually legislatively specified by the particular State in which we are working - for example, in Texas the lien date is January 1 per the Texas Property Tax Code. For ad valorem tax purposes, the date of the appraisals and reports are typically several months past the effective date, thereby leaving open the possibility that a retrospective approach is appropriate under limited and prescribed circumstances (information after the effective date being applicable only if it confirms a trend or other appraisal condition that existed and was generally known as of the effective date).

P&A believes this section of this report, in conjunction with any attached or separately provided P&A-generated report(s), meets the USPAP definition of “typical practice”; i.e., it satisfies a level of work that is consistent with:

- the expectations of participants in the market for the same or similar appraisal services; and
- what P&A’s peers’ actions would be in performing the same or similar appraisal services in compliance with USPAP.

Legal and Statutory Requirements: The provisions of the Texas Property Tax Code and relevant legislative measures involving appraisal administration and procedures control the work of P&A as a subcontractor to the Appraisal District. P&A is responsible for appraising property on the basis of its market value as of January 1 for ad valorem tax purposes for each taxing unit that imposes ad valorem taxes on property in the contracted Appraisal District. All industrial, utility and personal properties are reappraised annually. The definition of Fair Market Value is provided and promulgated for use in ad valorem tax work in Texas by the Texas Property Tax Code, and therefore as a **Jurisdictional Exception** supercedes the definition of “market value” as found in USPAP definitions.

Administrative Requirements: P&A follows generally accepted and/or recognized appraisal practices and when applicable, the standards of the International Association of Assessing Officers (IAAO) regarding its appraisal practices and procedures. P&A, when applicable, also subscribes to the standards promulgated by the Appraisal Foundation known as the Uniform Standards of Professional Appraisal Practice (USPAP). In all cases where IAAO and/or USPAP requirements cannot be satisfied for reasons of practicality or irrelevancy, P&A subscribes to “generally accepted appraisal methods and techniques” so that its value conclusions are credible and defensible. P&A submits annual or biannual contract bids to the Office of the Chief Appraiser and is bound to produce appraisal estimates on industrial, utility and personal properties within the cost constraints of said bid. Any appraisal practices and procedures followed by P&A not explicitly defined through IAAO or USPAP requirements are specified by the Texas Property Tax Code and/or at the specific request or direction of the Office of the Chief Appraiser.

Appraisal Resources

Personnel: The Engineering Services Department and P&A’s appraisal staff consists of appraisers with degrees in engineering, business and accounting. All personnel are Registered Professional Appraisers with the State of Texas, or are progressing towards this designation as prescribed by the Texas Department of Licensing and Regulation (TDLR).

Data: A set of data characteristics (i.e. original cost, year of acquisition, quantities, capacities, net operating income, property description, etc.) for each industrial, utility and personal property is collected from various sources. This data is maintained in either hard copy or computer files. Each property's characteristic data drives the appropriate computer-assisted appraisal approach to valuation.

Information Systems: P&A's mainframe computer system is composed of in-house custom software augmented by schedules and databases that reside as various applications on personal computers (PC). P&A offers a variety of systems for providing property owners and public entities with information services.

VALUATION APPROACH (MODEL SPECIFICATION)

Concepts of Value: The valuation of industrial, utility and personal properties is not an exact science, and exact accuracy is not attainable due to many factors. These are considered complex properties and some are considered Special Purpose properties. Nevertheless, standards of reasonable performance do exist, and there are reliable means of measuring and applying these standards.

The evaluation and appraisal of industrial, utility and personal property relies heavily on the discovery of the property followed by the application of recognized appraisal techniques. The property is subject to inflation and depreciation in all forms. The appraisal of industrial and personal property involves understanding petroleum, chemical, steel, electrical power, lumber and paper industry processes along with a myriad of other industrial processes. Economic potential for this property usually follows either the specific industry or the general business economy. The appraisal of utility properties involves understanding telecommunications, electrical transmission and distribution, petroleum pipelines and the railroad industry. Utility properties are subject to regulation and economic obsolescence. The examination of utility property involves the understanding of the present value of future income in a regulated environment.

The goal for valuation of industrial, utility and personal properties is to appraise all taxable property at "fair market value". The Texas Property Tax Code defines Fair Market value as the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
- both the seller and the purchaser know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use; and
- both the seller and purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.

Approaches to Value for Industrial, Utility, and Personal Property

Cost Approach: The use of cost data in an appraisal for market value is based upon the economic principle of substitution. This method is most readily applicable to the appraisal of industrial and personal property and some utility property. Under this method, the market value of property equals the value of the land plus the current cost of improvements less accrued depreciation. An inventory of the plant improvements and machinery and equipment is maintained by personally inspecting each facility every year. **As a general rule, and for the reasons stated above, Pritchard & Abbott, Inc., relies predominantly on the cost approach to value in the appraisal of industrial, utility, and personal property.**

Market Approach: This approach is characterized as one that uses sales data available from actual transactions in the market place. There are two factors that severely limit the usefulness of the market approach for appraising industrial, utility and personal properties. First, the property sales data is seldom disclosed; consequently there is insufficient market data for these properties available for meaningful statistical analysis. Second, all conditions of sale must be known and carefully investigated to be sure one does have a comparative indicator of value. Many times when these properties do change hands, it is generally through company mergers and acquisitions where other assets and intangibles in addition to the industrial, utility and personal property are involved. The complexity of these sales presents unique challenges and hindrances to the process of allocation of value to the individual components of the transaction.

In the case of industrial, utility and personal properties, a scarcity of sales requires that all evidence of market data be investigated and analyzed. Factors relative to the sale of these properties are:

- plant capacity and current production; terms of sale, cash or equivalent;
- complexity of property;
- age of property;
- proximity to other industry already operated by the purchaser; and
- other factors such as capital investment in the property.

As a general rule, and for the reasons stated above, Pritchard & Abbott, Inc., rarely employs a rigorous application of the market approach in the appraisal of industrial, utility, and personal property.

Income Approach: This approach to value most readily yields itself to all income generating assets, especially utility properties. Data for utility properties is available from annual reports submitted to regulatory agencies whereby future income may be estimated, and then this future income may be converted into an estimate of value. The valuation of an entire company by this method is sometimes referred to as a Unit Value. Many refer to this as a capitalization method, because capitalization is the process of converting an income stream into a capital sum (value). As with any method, the final value estimate is no better than the reliability of the input data. The underlying assumption is that people purchase the property for the future income the property will yield.

The relevant income that should be used in the valuation model is the expected future net operating income after depreciation but before interest expense (adjustments for Federal Income Taxes may or may not be required). Assumptions of this method are:

- Past income and expenses are a consideration, insofar as they may be a guide to future income, subject to regulation and competition.
- The economic life of the property can be estimated.
- The future production, revenues and expenses can be accurately forecasted. Future income is less valuable than current income, and so future net income must be discounted to make it equivalent to the present income. This discount factor reflects the premium of present money over future money, i.e., interest rate, liquidity, investment management, and risk.

As a general rule, and for the reasons stated above, Pritchard & Abbott, Inc., employs the income approach in the appraisal of industrial and utility property only when quantifiable levels of income are able to be reliably determined and/or projected for the subject property. P&A does not employ the income approach in the appraisal of personal property.

DATA COLLECTION/VALIDATION

Sources of Data: The main source of P&A's property data for industrial and personal property is through fieldwork by the appraisers and commercially/publicly available schedules developed on current costs. Data for performing utility appraisals is typically provided by the taxpayer or is otherwise available at various regulatory agencies (Texas Railroad Commission, Public Utilities Commission, FERC, et. al.). Other discovery tools are financial data from annual reports, information from chief appraisers, renditions, tax assessors, trade publications and city and local newspapers. Other members of the public often provide P&A information regarding new industry and other useful facts related to property valuation.

Data Collection Procedures: Electronic and field data collection requires organization, planning and supervision of the appraisal staff. Data collection procedures have been established for industrial and personal properties. Appraisers gather and record information in the mainframe system, where customized programs serve as the basis for the valuation of industrial, utility and personal properties. P&A is divided into multiple district offices covering different geographic zones. Each office has a district manager and field staff. While overall standards of performance are established and upheld for the various district offices, quality of data is emphasized as the goal and responsibility of each appraiser. Additionally, P&A's Engineering Services Department provides supervision and guidance to all district offices to assist in maintaining uniform and consistent appraisal practices throughout the company.

VALUATION ANALYSIS (MODEL CALIBRATION)

The validity of the values by P&A's income and cost approaches to value is tested against actual market transactions, if and when these transactions and verifiable details of the transactions are disclosed to P&A. These transactions are checked for meeting all requisites of fair market value definition. Any conclusions from this analysis are also compared to industry benchmarks before being incorporated in the calibration procedure. Appropriate revisions of cost schedules and appraisal software are annually made and then tested for reasonableness prior to the appraisals being performed.

INDIVIDUAL VALUE REVIEW PROCEDURES

Individual property values are reviewed several times in the appraisal process. P&A's industrial, utility, personal property programs and appraisal spreadsheets afford the appraiser the opportunity to review the value being generated. Often the appraiser is prompted to reevaluate some or all of the parameters of data entry so as to arrive at a value more indicative of industry standards. Examples of indicators are original cost, replacement cost, service life, age, net operating income, capitalization rate, etc. In addition to appraiser review, taxpayers are afforded the opportunity to review the appraised values either before or after Notices of Appraised Value are prepared. Taxpayers, agents and representatives routinely meet with P&A's appraisers to review parameters and to provide data not readily available to P&A through public or commercial sources, such as investment costs and capitalization rate studies. And of course, all property values are subject to review through normal protest and Appraisal Review Board procedures, with P&A acting as a representative of the Office of the Chief Appraiser.

PERFORMANCE TESTS

An independent test of the appraisal performance of properties appraised by P&A is conducted by the State of Texas Comptroller's Office through the annual Property Value Study for school funding purposes. This study determines the degree of uniformity and the median level of appraisal for utility properties. School jurisdictions are given an opportunity to appeal any preliminary findings. After the appeal process is resolved, the Comptroller publishes a report of the findings of the study, including in the report the median level of appraisal, the coefficient of dispersion around the median level of appraisal and any other standard statistical measures that the Comptroller considers appropriate.